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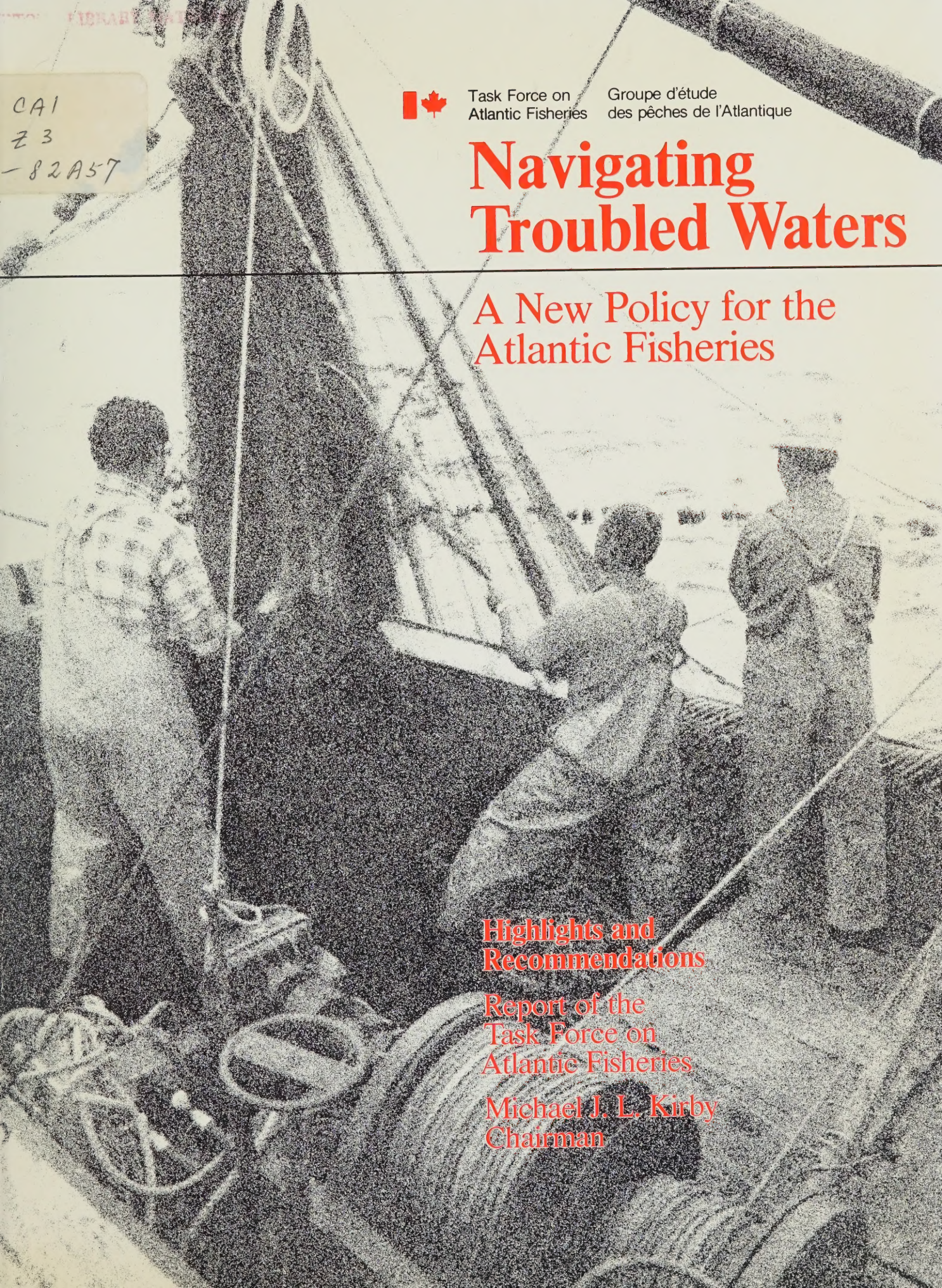


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Task Force on
Atlantic Fisheries

Groupe d'étude
des pêches de l'Atlantique

Navigating Troubled Waters

A New Policy for the Atlantic Fisheries

**Highlights and
Recommendations**

**Report of the
Task Force on
Atlantic Fisheries**

**Michael J. L. Kirby
Chairman**



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Chairman

December 1982

Note: This is a summary of the highlights and recommendations in the main Report of the Task Force on Atlantic Fisheries. Readers who wish to purchase a copy of the main Report once it becomes available can do so by writing to the Department of Fisheries and Oceans at one of the following locations:

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A1C 5X1

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Foreword

The presentation of material in this document parallels that in the Report of the Task Force. However, the analytical material — including the results of the Task Force survey of fishermen's income and costs, the results of the Task Force study of the revenues and costs of processing plants, and the results of the extensive marketing studies done by the Task Force — contained in Chapters 4 to 6 of the Report, has been highly condensed in this digest. Similarly, the material in Chapters 1, 2 and 3 of the Report appears here in abbreviated form.

Chapters 9 through 21 of the Report contain the Task Force recommendations on 13 major problems facing the Atlantic fisheries. In the Report, each of these chapters is structured in an identical way, with five subsections: the first contains a concise statement of the problem being considered; the second presents background material on the problem; the third presents a range of options for solving the problem; the fourth contains the Task Force recommendations and the fifth contains comments on the recommendations. For each of the 13 chapters, this digest contains the first, fourth and fifth subsections only. Readers who want background information and analysis on any of the 13 problems, or who want to review the options the Task Force considered but rejected, should turn to the full text of the Report.

Finally, because of their importance, this digest contains Chapters 7, 8, 22 and 23 exactly as they appear in the Report.

Contents

Preface	vii
Acknowledgements	ix
I The Background	
1. Introduction	3
2. Profile of the Atlantic Fishery	5
A Snapshot of the Fishery	7
Task Force Analytical Areas	9
3. Myths and Realities	13
Undisciplined Expansion	13
Will Fish Stocks Continue to Expand?	13
We versus They	14
Inshore versus Offshore	14
The Atlantic Groundfish Management Plan	14
Trawler Dependence on the Gulf	15
Does the Trawler Fleet have a Future?	17
Inshore and Offshore Prices	17
The Whole Problem is	18
II The Industry Environment	
4. The Economic Condition of Fishermen, their Households, Communities and Enterprises	23
5. The Economic Condition of the Processing Sector	35
Financial Performance	35
The Causes of Decline	38
Is There a Formula for Success or Failure?	43
Targets for a Profitable Processing Industry	47
6. Markets and Marketing	49
Where We Stand	49
Canada's Record in Marketing	49
Marketing Organization	52
Marketing Behaviour and Performance	53
Supply and Demand Forecasts	54
III Objectives and Key Issues	
7. Objectives of Atlantic Fisheries Policy	59
Introduction	59

	The Objectives	60
	The Role of Ideology.....	63
8.	Issues and Recommendations: An Overview	65
	Introduction	65
	Rationale for the Recommendations	65
	Making it Work	68
IV	Issues and Recommendations	
9.	International Issues	71
10.	The Harvesting Sector	77
11.	Resource-Short Plants.....	87
12.	Utilization of the Northern Cod Stock.....	91
13.	The Northern Fisheries.....	95
14.	Quality.....	97
15.	The Port Market	101
16.	Improving Fish Plant Profitability.....	103
17.	Marketing.....	109
18.	Fishermen's Incomes	115
19.	Financial Assistance.....	121
20.	The Herring Seine Fleet	125
21.	Dealing with Differing Views: Consultation and Decision-making Processes..	127
V	The Future and Getting There	
22.	Implementation and Cost of the Recommendations	131
	Introduction	131
	Timetable for Implementation.....	132
	Cost Implications	134
23.	The Future Shape of the Atlantic Fishery	137
	The Recommendations and the Objectives	137
	The Objective of Fairness	140
	Conclusion.....	142
	Appendices	
1.	Terms of Reference	147
2.	Glossary of Terms and Acronyms	149

Preface

For all at last return to the sea — to Oceanus, the ocean river, like the overflowing stream of time, the beginning and the end.

The final words of Rachel Carson's The Sea Around Us.

For a variety of personal reasons, the sea and the people involved in the Atlantic fishery have long had a special place in the hearts of everyone who worked on the Task Force. We were all extremely pleased to have this opportunity to “return to the sea”.

The sea has also enjoyed a special place in the Canadian psyche and way of life. Moreover, given Canada's geography, the economic potential of the resources in and under the sea ensures that it will forever remain of great significance to Canada.

Personal attachment to the region and the economic significance of the fishery combined to make the work of the Task Force both highly challenging and extremely satisfying. We thoroughly enjoyed it.

Although the Report bears the name of the chairman, who accepts full responsibility for its recommendations, the work of the Task Force would not have been possible without the assistance of many knowledgeable people concerned about the Atlantic fishery. Acknowledgement of their considerable contribution is given in detail under that heading.

The Task Force itself consisted primarily of 12 people, including myself as chairman. They were Roy Atkinson, Bruce Little, David McD. Mann, Arthur W. May, Rev. Desmond McGrath, Peter J. Nicholson, David E. Paterson, Victor Rabinovitch, Richard Roberts, Paul Sutherland and Betty Yolkouskie. To them must go the lion's share of the credit for meeting the almost impossible deadline of completing this study of the Atlantic fishing industry in nine months.

Why the need for such haste? Because the fishery, viewed from either an economic or a social perspective, is in serious trouble. Change in the way a great many things are now done is essential and must be undertaken as quickly as possible if the fishery is to survive.

And survive it must. For the Atlantic fishery is a very people-oriented industry. It is a way of life that provides the lifeblood of thousands of individuals and hundreds of communities throughout the Atlantic region.

Any industry so economically and socially entwined in the fabric of a region is bound to be extraordinarily complex. This is why we consulted as extensively as we did and why members of the Task Force found the work so challenging. This is also why the debates among us were so spirited and why passions were so often aroused as we attempted to identify, study, then reach a measure of consensus among ourselves on issues that are of deep concern to all the people involved in the fishery.

In the end we have put forward recommendations that we believe will effect fundamental changes in the Atlantic fishery if they are adopted — changes that will require considerable adjustment in the attitudes and traditions of those involved. We realize that this means that our recommendations will not be universally popular and will generate controversy. This is as it should be. Disagreement, if thoughtful, and constructive debate are both essential and inevitable in an open society that seeks humane, yet economically practical, solutions to complex social and economic problems.

We believe our Report and its recommendations come to grips with the major issues facing the fishery. We also believe that we have considered, without prejudice, every reasonably widely held point of view brought to our attention before we reached our conclusions. Our hope is that this same spirit of open-mindedness will be found among readers when they consider our recommendations and among decision makers who must decide what action to take as a result of them.

This is a time that calls for our best effort. The Atlantic fishery poses problems that require everyone involved in it to pull together to put it on a course that will lead to its long-run viability. Those of us who have been intimately involved with the problem believe that the future is bright for the fishery and for the people in it, but only if there is an end to the parochialism and the we-versus-they antagonism that have spelled failure for almost all past efforts at co-operation.

But changing attitudes and traditions and creating a sense of common purpose are not things that can be achieved by law or regulation or government policy alone — they can only be achieved if everyone involved in one way or another in the fishery decides to change and to work together for the common good.

It is to these people — fishermen, plant workers, company managers and owners, federal and provincial ministers and officials — that we dedicate this Report. It can truly be said that the future of the fishery, and in many ways the future of the Atlantic region, is in their hands. We wish them well.

Michael J.L. Kirby
November 1982

Acknowledgements

The Task Force is particularly grateful to Michael Calcutt for his efforts as our registrar. We also drew extensively on the following people for assistance: Ron Bulmer, Kieth Brickley, Nilo Cachero, Gordon Cummings, Tom Eisenhauer, Cheryl Fraser, Robert Green, Joshua John, Jim Jones, Ann Kern, Cliff Levelton, Robert MacKay, Gordon Neal, Scott Parsons, Gordon Slade, and Mary Zamparo. Kathryn Randle and Joe Gough provided editorial services.

The Task Force was particularly fortunate in having, for support staff in our offices in Ottawa, Halifax and St. John's, the following: Donna Stebbing, Donna Wren, Cora Crossman, Sheila Borge, Joanne Diraimo, Mary Lynn Olive, Gary Comrie, and Patricia Elliott as well as Katie Innes and Yvonne Rochon in the chairman's Federal-Provincial Relations Office. The Administration and Finance Division of Privy Council Office also provided excellent support and services.

The Task Force would like to acknowledge the contribution of many people who, from time to time, provided both advice and assistance: Rollie Blanchard, R.M. Bond, Tony Campbell, Cleo Cormier, Len Cowley, Dick Crouter, Nancy Dale, Tom Donahue, Fern Doucet, Larry Doucet, Diane Dufour, Eric Dunne, Clar Fisher, Gary Fletcher, Gemma Giovannini, Joe Godin, Mark Hemphill, Peter Hood, Tim Hsu, Jean Laperrière, Marcel Lebeau, Barry Muir, Joanne McLeod, Bill MacKenzie, Julian Rance, Tom Shenstone, Carl Sollows, Bob Verge, Gary Vernon, Ed Walker, Tom Wise and Gillian Wogin.

Several firms and individuals also gave us valuable assistance in carrying out our studies of marketing and the economic condition of fishermen and processors. Among them were Woods Gordon management consultants, The NewLantic Group, Thorne Stevenson Kellogg, Touche Ross, Leonard and Partners, Charles Steinberg, Michael Gardner of Gardner Pinfold and Associates and Tom Poetschke, formerly of ABT Associates Ltd. If we have omitted anyone, we apologize.

We also want to thank the great many members and officials of fishermen's organizations, processors' organizations, and provincial and federal government departments with whom we consulted extensively. They took time from their busy schedules to meet with us, to provide us with ideas and information, to think about questions we had raised and to write to us.

We particularly appreciated the letters we received from individual fishermen and concerned citizens. We were very much helped in our work by the more than 1000 fishermen who took the two to four hours required to participate in our survey of fishermen's income and expenses and by the officials of the Department of Fisheries and Oceans who carried out the survey interviews. We are also grateful to the many individuals in the processing sector who gave Woods Gordon the information they needed to carry out their study for us.

We realize that the people whom we met, telephoned, received letters from or who participated in our surveys will not all agree with all of our conclusions and, of course, they bear no responsibility for any of them. But we hope they will feel the time and effort they spent dealing with us was worthwhile.

Finally, we would like to pay special tribute to the late Kjell Henriksen, whose untimely death was a tragedy for the fishing industry. He was a source of wisdom, common sense and strength to the Task Force. He will be missed.

I The Background

1. Introduction

We have approached the study of the problems submitted to us for investigation with the hope of finding solutions . . . or of suggesting, at least, methods of permanent relief, rather than with the idea of providing temporary palliatives. Many of the matters . . . have already been made the subject of prolonged and exhaustive enquiries without final solutions being found for the problems involved. The difficulties and disabilities are so many, so varied and so intricate, that their complete and final removal will require from the department patient and perhaps prolonged endeavour.

*Report of the Royal Commission on
Maritime and Québec Fisheries, 1928.*

On January 8, 1982, fifty-four years after those words appeared in the report of a royal commission on fisheries, the Prime Minister announced the appointment of a Task Force on Atlantic Fisheries, whose primary mandate was to recommend “how to achieve and maintain a viable Atlantic fishing industry, with due consideration for the overall economic and social development of the Atlantic provinces.”

The Task Force operated in two ways: by conducting detailed studies of three major subjects and through an extensive program of consultation with those having an interest in the Atlantic fishery.

The three major studies were an income and expenditure survey of over 1000 fishermen throughout the Atlantic provinces; a revenue and cost survey of some 100 plants representing about 85 per cent of the groundfish industry in Atlantic Canada; and an analysis of the potential market for groundfish and herring on a world-wide basis. These studies were the most extensive of their kind ever carried out on the Atlantic fishery and together they constitute the most comprehensive fact base ever assembled on the industry. The major results of these studies are contained in Chapters 4, 5 and 6.

The consultation program consisted of several phases. First, shortly after the work of the Task Force got under way in mid-February, about 70 groups were invited to make written submissions and to meet with the Task Force if they wished to do so. This resulted in a significant number of written submissions, briefs and letters, including many from individual fishermen and others who took the time to submit their views on what is needed to cure the problems of the industry.

The second phase of our consultation program consisted of meetings with groups of fishermen, processors and representatives of provincial governments. Over 100 such meetings were held throughout the region.

The third phase was a second round of consultations held in mid-July at which the major fishermen’s and processors’ organizations and provincial governments were asked to comment on a paper entitled “Issues and Options” which the Task Force released on July 14. In addition, written comments on the paper were received from many other interested parties. The purpose of these meetings and the written comments was to determine whether the Task Force had correctly identified the major problems facing the industry; whether we had listed a full range of options for solv-

ing these problems; and to find out which options were preferred by which organizations and provincial governments.

These meetings were highly successful in that there was a virtually unanimous view that we had identified the key problems of the industry and broad agreement that we had identified a full range of options for solving them. As one would expect, there was a divergence of views on which options the Task Force ought to recommend, although there was consensus on the preferred options on a few issues.

The fourth and final phase of the consultative process was a review of the results of our three major studies with the Fisheries Council of Canada, major fishermen's organizations and unions, and provincial and federal government officials. In mid-September, these organizations reviewed drafts of the findings of these studies. As a result of these meetings, the Task Force believes that we have presented a fact base in Chapter 4, 5 and 6 that is regarded as accurate by all major participants in the fishery.

It should be noted at the outset that the fishery is a jurisdictional 'sandwich', with the resource, its management and harvesting coming under federal jurisdiction, as does inter-provincial and international trade in fisheries products. Between the time the fish are landed and when they are sold outside a province's boundaries, the provinces have authority over labour legislation, the buying and selling of fishermen's catches and the licensing of processors. Accordingly, this Report deals mainly, but not exclusively, with harvesting and marketing issues, because processing and port market issues are the responsibility of provincial governments. The measures required to ensure fish plant viability by restructuring and refinancing the processing companies are under active negotiation with financial institutions, the companies concerned, and the provinces.

The recommendations contained in Chapter 7 and in Chapters 9 through 21 reflect the opinion of the Task Force in trying to balance a large number of factors. Our approach to the recommendations was based primarily on pragmatism — what option will work in practice; what option will be capable of generating enough support to be implemented successfully; and what option will move us toward the achievement of our objectives. In reaching our recommendations, we have tried to be as free from ideology as possible. Nevertheless, it was inevitable that value judgements would enter into our recommendations. For this reason, we recognize that there are few people who will support the entire set of recommendations, just as there are few who will be opposed to all of them. We believe, however, that taken together as a package, the recommendations will move the fishery toward the achievement of our primary objective: long-run economic viability for all participants.

2. Profile of The Atlantic Fishery

... the sea there is swarming with fish, which can be taken not only with the net but in baskets let down with a stone, so that it sinks in the water. These same English say that they could bring so many fish that this kingdom would have no further need of Iceland ...

*Raimondo di Soncino,
in a letter to the Duke of Milan
informing him of John Cabot's
discovery of North America,
December 18, 1497.*

The fishery has sustained, but rarely enriched, generations of Canadians living on the Atlantic coast. It was the *raison d'être* for the settlement of Newfoundland and it has been the economic backbone of hundreds of communities in the Maritimes and Québec for over two centuries.

People settled to fish or, if they settled for other reasons, they soon turned to fishing in conjunction with their other work which usually involved the exploitation of the surrounding natural resources. They did some farming (if the land would support it), they cut some wood (if they had access to wood worth cutting), they hunted and trapped animals (if any were available). In effect, they cobbled together a living — or at least a sustenance — from whatever bounty was offered by the land and sea around them. It was not easy. They lived in a difficult environment and worked within an economic system that gave little power to workers or small producers in a natural resource economy.

From its beginnings, the fishery was the basis of a classic staples economy. For large parts of the east coast, fish was the only product sold to the outside world, the only substantial source of export income. The living provided by the fishery was continually buffeted by the vagaries of nature and world markets. People whose existence depended upon the fishery took as a matter of course the roller coaster nature of the industry, as boom and bust alternated every few years. Cyclical economic 'adjustment', to use a current term, was a fact of life.

Social adjustment too has been part of the fishery. The pursuit of fish governed the patterns of settlement in Newfoundland and Labrador, drawing people from the Avalon Peninsula up the northeast coast and into Labrador, tugging them westward along the south coast. In Nova Scotia, settlers from what is now Germany arrived expecting to carry on the farming traditions of their ancestors. Instead, they turned away from the land to the sea, transforming themselves into fishermen who created a new tradition, centred on Lunenburg.

They did not get rich. But as they adjusted, they survived, generation after generation — a coastal people who knew the northwest Atlantic Ocean intimately in all its moods. Along 28,000 miles of coastline, they built a society, still largely centred on the fishery, in consonance with the different faces of nature — harsh one day, benevolent the next, but predictable never. They built a way of life with a value of its own that, in late twentieth century North America, seems hard to find in many places.

It is a society worth maintaining for many reasons — social, economic and political in the broadest sense of the word. It is part of the fabric of Canada, part of our history as Canadians, part of our culture as residents of a country with one of the world's longest coastlines, a country that fronts on three oceans.

But this is not to say this society should be maintained at all costs. There is a rural romantic school of thought that tends to view fishing communities as unspoiled paradises whose very existence justifies their permanent survival. The Task Force has adopted a more balanced view; any society, by its nature, must change over time, but social or community changes must be evolutionary rather than revolutionary in nature. Therefore, when we say the fishing communities of Canada's east coast should be maintained, it must be understood that, in our view, maintenance does not mean the automatic preservation of the status quo or a mummification of coastal communities as quaint tourist attractions.

The fishery and the communities that rely on it for their existence both face serious problems. The solution to these problems cannot be found in a static society or in a static fishing industry, forever dependent on the taxpayer for supplements to bring its meagre earnings from the fishery up to subsistence level. Such an answer produces, at best, a shabby dignity for the people of the fishing communities of the east coast. The Task Force therefore rejected the 'rural-romantic' approach to the fishery.

Equally, the Task Force could not accept the view from the opposite extreme — the school of thought that suggests that the industry should be able to operate in a completely unfettered free market environment, for the result would be economic and social chaos. Our approach to the problems of the fishery lies between these two extremes, accepting neither the rural-romantic nor the pure free enterprise school.

We have been struck by the number of people who seem to believe that somehow the economic problems of the fishing industry and the social problems of fishing communities can neatly be separated and shunted off into side-by-side cubbyholes for examination and solution. Almost from the beginning of our work, we rejected this notion.

To try to create an economically efficient industry as an end in itself without regard to social values, or to try to preserve a way of life without part of that life being meaningful, self-supporting work, is like trying to separate body and soul. Our approach therefore recognizes explicitly the inseparability of economic and social issues in the fishery.

The Newfoundland Fishermen, Food and Allied Workers Union sounded what we regard as the appropriate note in its brief to the Task Force:

[L]ong-term government policy . . . should provide in the overall for a rural society that can develop its own dynamic and be, in a qualitative sense, a society of consequence.

If the fishery attracted the first settlers to much of Canada's east coast, it has come to represent a bittersweet resource base for their descendents, a resource whose always-bright potential seems to remain just that — potential. There have been good years, to be sure, but they have been part of a cyclical boom and bust pattern that has not captured the potential of the resource with any semblance of stability.

Quite simply, coastal communities offer few alternative sources of employment; as a result, many people have gone fishing who might otherwise have sought other — better-paying — jobs were they available. But going fishing has not solved their more fundamental problem of trying to earn a decent living.

The fishery today does not provide a good living for many of the people who participate in it. As a generalization, it can be said that whether you are a fisherman with a boat of your own, a crew member on someone else's vessel, a worker in a processing plant, or a shareholder in a large fishing company, at present you are unlikely to earn a decent return on either your labour or your capital.

This should not, and need not, be so.

The fishery is a process by which fish are moved from the sea to the dinner plate of a consumer. At one end is the resource itself — the fish in the northwest Atlantic from the coast of Labrador to Georges Bank, the Bay of Fundy and the Gulf of St. Lawrence. At the other end is the market — the people who buy fish to eat.

In between is a troubled fishing industry — an industry that has failed to make all the connections work in a way that is in everyone's economic interest. The fishery is a chain with too many weak links.

The fishery confronts us with a disturbing paradox. On one doorstep, we have one of the world's great natural fisheries resource bases, one that has made dramatic improvements since the extension of fisheries jurisdiction to 200 miles on January 1, 1977. The resource is manageable and it is being capably managed by Canadians.

On our other doorstep is the United States, a major and accessible market for fish. In between is a Canadian fishing industry mired in financial crisis, plagued by internal bickering, beset with uncertainty about the future, and divided on how to solve its problems.

The purpose of this Report is to try to set a course for everyone involved in the fishery: fishermen, plant workers, company owners and the federal and provincial governments — a course that will enable them successfully to navigate the troubled waters of the Atlantic fishery.

A Snapshot of the Fishery

Chapter 2 of the main Report provides an overview of the Atlantic fishery by reviewing its history over the last 15 years, illustrating some of the diversity of the industry and setting in perspective the groundfish fishery, which is the focus of our work.

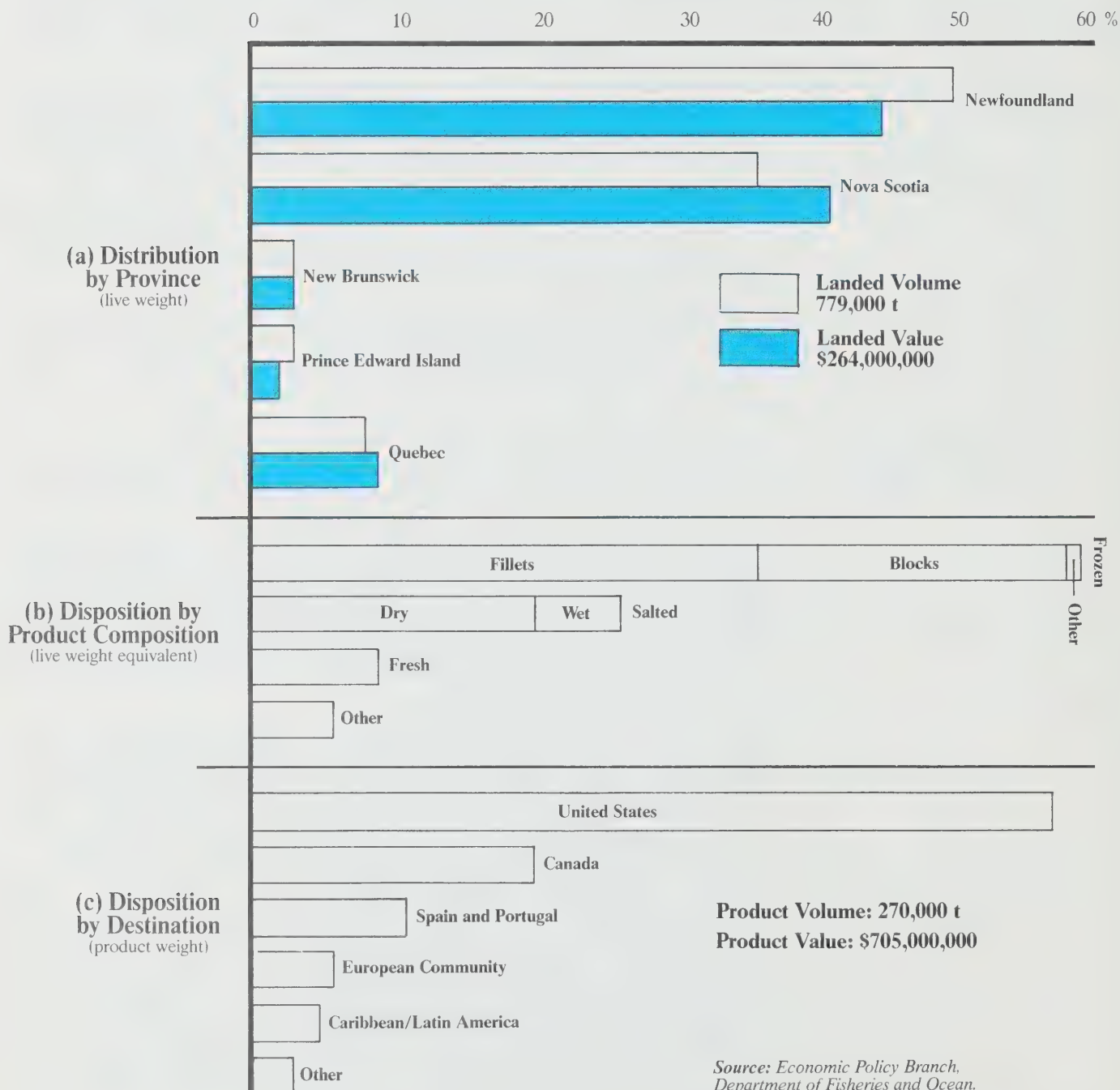
Figure 2.1 provides a snapshot of the groundfish industry. The graphs are designed to show where the groundfish are caught; how they are processed after they reach shore; and where they are sold. Newfoundland and Nova Scotia are the two primary groundfish harvesting provinces (Figure 2.1a). The involvement of New Brunswick and Prince Edward Island in the groundfish fishery is relatively minor. Groundfish is a very important component of the Québec fishery, but it is of small scale compared with Newfoundland and Nova Scotia.

When the fish is landed, it is processed into a mixture of products for the marketplace. Only about 35 to 40 per cent of a fish is flesh; the rest is bones, skin and offal. (See Appendix 2 for a Glossary of technical terms.) As the fish is processed, therefore, its weight drops but the value of the catch increases. In 1981, 779,000 tonnes(t) of landed groundfish was processed into 270,000 t of groundfish products. The landed value of \$264 million was transformed into \$705 million worth of products.

Processing takes many forms. Most commonly, groundfish is frozen. In 1981, almost 60 per cent of the groundfish harvested went into frozen products. As can be seen in Figure 2.1b, 36 per cent went into fillets and 22 per cent into blocks. The fillets are sold to the public in that form; the blocks undergo further processing when they are cut into fish sticks and similar products. About one-quarter of the groundfish catch is salted. It is first heavily salted; then, depending on its ultimate moisture content, it is called either 'wet' or 'dry'. Salted fish is almost exclusively cod. Less than 10 per cent of the groundfish is sold as fresh fish, most in filleted form, but there is also an active trade in whole, gutted fresh fish trucked from western Nova Scotia to New England.

Figure 2.1

Canadian Atlantic Groundfish Harvest: Distribution and Disposition, 1981



From the plants, the groundfish products go to market. In 1981, only one pound in five was consumed in Canada; the rest was exported. As Figure 2.1c makes clear, most of our fish goes to the United States. It was the destination for 57 per cent of our Atlantic groundfish products. The rest was sold primarily to the European Economic Community, Spain, Portugal and in the Caribbean and Latin America. The great majority of saltfish is sold in the latter four markets.

Although the industry has many problems, a shortage of fish is not one of them. By 1987, the groundfish harvest should reach 1.1 million tonnes, an increase of about 370,000 t over 1981. But as Figure 2.2 makes clear, this growth is not evenly spread. Almost all the increase will be confined to one species — cod. And about 70 per cent of the growth in the harvest will take place off the northeast coast of Newfoundland and Labrador.

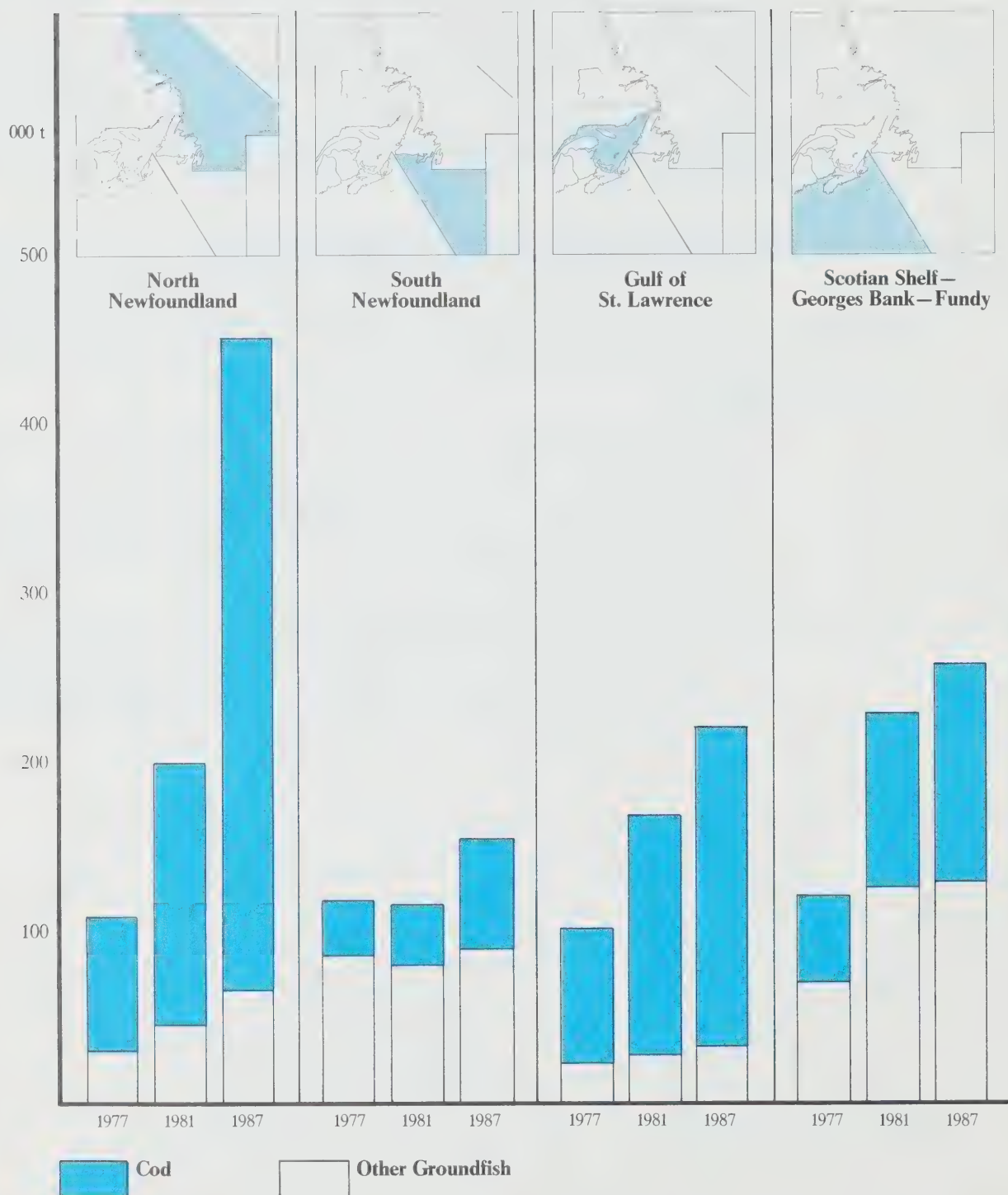
Task Force Analytical Areas

Throughout the Report, readers will find references to different areas of the Atlantic coast. The Task Force, from the beginning, was particularly conscious of the fact that the Atlantic fishery is not homogeneous. There are wide differences among areas of the Atlantic coast, and we wanted our statistical base to reflect this diversity. We decided to gather our statistics, as much as possible, on the basis of 13 geographical areas. These are set out in the list below and illustrated in the map on page 12.

There is nothing particularly scientific about the areas; they made sense to us and had the advantage of following the boundaries of fish stocks and of statistical collection areas. Moreover, by adding groups of areas, all-province totals can be obtained. As our work progressed, we occasionally found it necessary to reduce the number of areas in presenting data; in some cases, this was done to preserve the confidentiality of commercially sensitive financial information; in others, it seemed more appropriate to aggregate the data.

For the uninitiated, the term 'adjacent NAFO area' refers to the breakdown of the waters off Canada's east coast used by the Northwest Atlantic Fisheries Organization. Most fisheries statistics relating to the resource itself are gathered on the basis of the NAFO areas that appear on the map. Our areas are land-based, rather than water-based, but the boundaries of both touch where land meets water.

Figure 2.2
Canadian Catch of Groundfish
Under Quota: Regional Breakdown



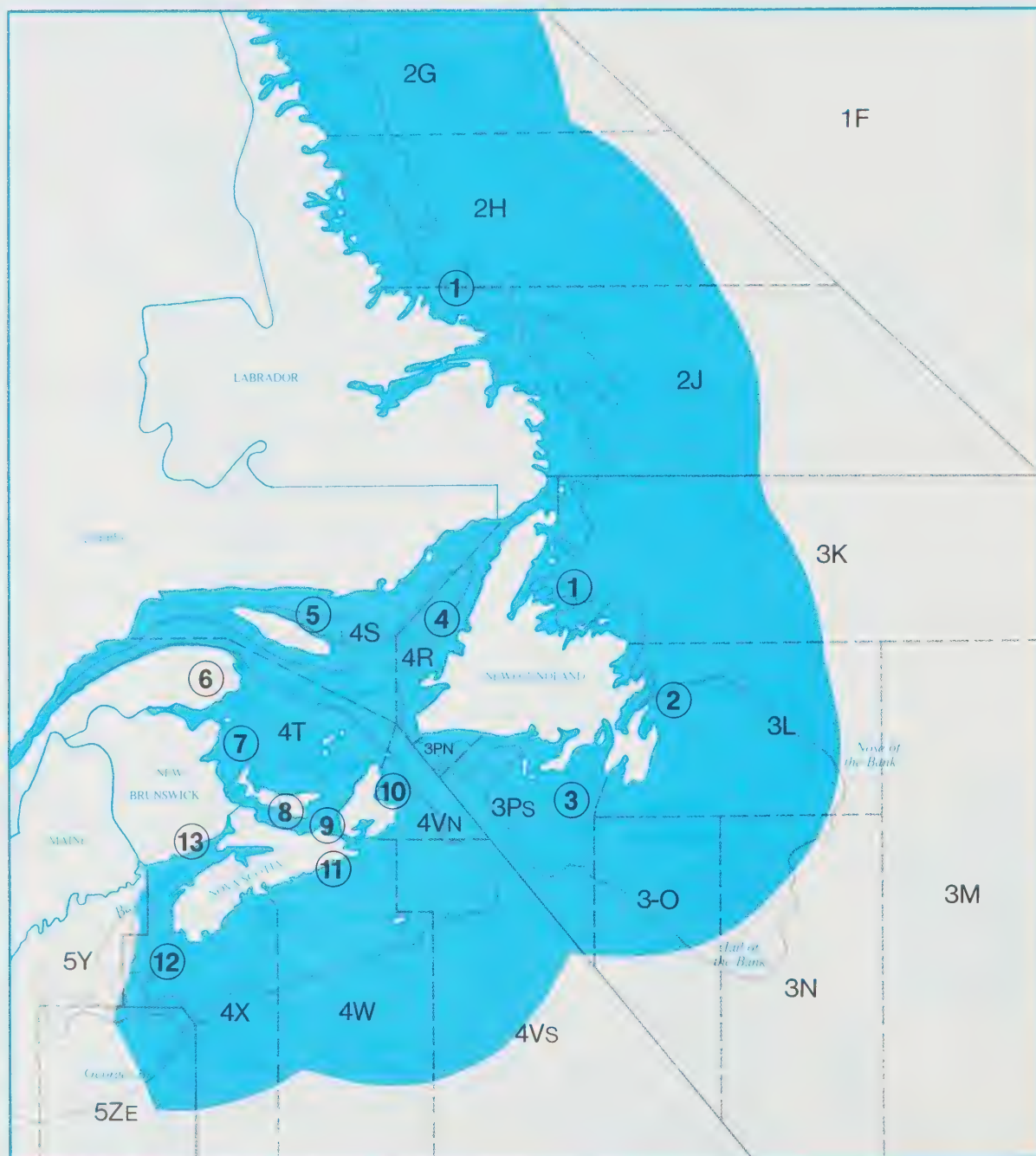
Note: Figures for 1977 and 1981 are actual. Figures for 1987 are Task Force projections.

Source: Table 2.4 of the Task Force Report.

Task Force Analytical Areas

No.	Area	Boundaries	Adjacent NAFO Area
1.	Labrador-Northeast Newfoundland	All Labrador and Newfoundland from Cape Bauld to Cape Freels	2, 3K
2.	Eastern Newfoundland	Cape Freels to Cape St. Mary's	3LNO
3.	South Coast Newfoundland	Cape St. Mary's to Boar Island	3 Ps
4.	West Coast Newfoundland	Boar Island to Cape Bauld	3Pn, 4R
5.	Québec North Shore	West from the Newfoundland-Québec border north of the St. Lawrence River	4S
6.	Gaspé Québec	Gaspé Peninsula and Magdalen Islands	4T
7.	Gulf New Brunswick	Québec-New Brunswick border to New Brunswick-Nova Scotia border	4T
8.	Prince Edward Island	Prince Edward Island	4T
9.	Gulf Nova Scotia	New Brunswick-Nova Scotia border to Cape North	4T
10.	Northeast Nova Scotia	Cape North to the boundary of NAFO areas 4Vn and 4W	4Vn
11.	Eastern Shore Nova Scotia	Boundary of NAFO areas 4Vn and 4W to Sambro Island	4VsW
12.	Western Nova Scotia	Sambro Island to the Nova Scotia-New Brunswick border on Cumberland Basin	4X, 5
13.	Fundy New Brunswick	Bay of Fundy coast of New Brunswick	4X, 5

The Atlantic Fishery



BOUNDARY OF NAFO SUB-AREAS.

BOUNDARY OF NAFO DIVISIONS.

183 METRE (100 FATHOM) CONTOUR.

200-MILE FISHING ZONE

Task Force Analytical Areas

- | | |
|--|-----------------------------|
| ① North East Newfoundland and Labrador | ⑦ Gulf New Brunswick |
| ② South East Newfoundland | ⑧ Prince Edward Island |
| ③ South Coast Newfoundland | ⑨ Gulf Nova Scotia |
| ④ West Coast Newfoundland | ⑩ North East Nova Scotia |
| ⑤ North Shore Quebec | ⑪ Eastern Shore Nova Scotia |
| ⑥ Gaspé Quebec | ⑫ South West Nova Scotia |
| | ⑬ Fundy New Brunswick |

3. Myths and Realities

The great majority of mankind are satisfied with appearances, as though they were realities, and are often more influenced by the things that seem than by those that are.

Niccolo Machiavelli

There is always an easy solution to every human problem — neat, plausible and wrong.

H.L. Mencken

A folklore has developed around the Atlantic fishery that mixes important elements of truth with misconceptions and unwarranted generalizations. Several of the more important and widespread conceptions will be analyzed briefly to separate myth from reality, with particular emphasis on the sources of conflict in the fishery, especially the issues surrounding the so-called inshore/offshore conflict over resource allocations.

Undisciplined Expansion

Some of the problems of the fishery have been the result of a too rapid expansion in the number of fishermen and vessels and in processing capacity following the extension of fisheries jurisdiction in 1977. The number of licensed (though not necessarily active) fishermen in the Atlantic fishery increased by some 45 per cent, from about 36,500 to about 53,500 between 1974 and 1981.

The number of processing facilities increased by 35 per cent, from 519 in 1977 to 700 in 1981. Between 1974 and 1980, freezing capacity increased more than two and a half times in the Atlantic region. Numbers can be misleading. The important plant statistic is the total amount of capacity relative to peak landings. There is nevertheless substantial under-utilization in the off-peak season.

As for the number of fishermen, it is believed that the present numbers are comparable to those prevailing before the drastic decline of the Newfoundland inshore fishery in the early 1970s. It is clear, however, that the expansion that has taken place since 1977 in plant capacity and in the number of fishermen has been excessive under the circumstances.

Will Fish Stocks Continue to Expand?

The expansion of the fishery between 1977 and 1980 was based on the expectation, and the reality, of greatly increased Canadian catches as a result of the 200-mile limit. An attitude quickly developed that any financial problem in the industry could be solved by a greater volume of production. A reliance on growth cannot, of course, be sustained indefinitely, and in many stocks the biological limits of prudent harvesting have been reached, or nearly so.

The answer to the question — will fish stocks continue to expand? — is both yes and no. It depends on where you are and what you fish. Growth in stocks can still solve some of the thorny problems of excess harvesting and processing capacity in the Atlantic fishery, provided brakes can be put on expansion now. But, as the remainder of the Report shows, stock growth will not solve the industry's major problems.

We versus They

A theme that surfaces frequently in this Report is the atmosphere of dis-harmony that infects the fishery.

It seems evident that the 'common property' nature of the fishery is the fundamental cause. The subject of common property is treated in detail in Chapter 10. Here it is only necessary to point out that when everyone competes for a share of a common, but limited, resource the result is a zero-sum game; one man's gain is always another's loss. All the conflicts over allocations — whether between provinces, between inshore and offshore fleets, or between individual fishermen — are of this type. And the conflict will become more intense when there is no longer any new growth to allocate.

The we/they attitude will remain as long as participants in the fishery fail to see themselves as part of a larger economic system pitted against foreign competitors in the international seafood market. Canadians will fall far short of their potential as long as competitive energies are dissipated in domestic conflict.

This problem cannot be resolved by government policy. Its resolution will require a fundamental change in attitude on the part of fishermen and processors alike.

Inshore versus Offshore

Conflict in the fishery has been symbolized by the tug of war between the inshore and offshore sectors for allocations of the growth in fish stocks since 1977. While the conflict has been real, the terms used to characterize it are misleading. At issue is not the distance from land at which fish are caught, but rather the control of resource supply and the timing of its delivery to processors.

Integrated, trawler-owning companies (the 'offshore' sector) have sought security of year-round fish supply. This has led them to oppose larger allocations to independent fishermen (the 'inshore' sector) who are generally unable to deliver fish throughout the year because of environmental factors — the weather and fish migrations — and who are not bound to deliver their catch to any particular plant.

Sometimes the inshore fishery is portrayed as the 'social' fishery while the offshore is thought to be economically efficient. No such general statement can be made. There are many situations where the reverse is true. For example, the inshore-based fishery in southwestern Nova Scotia is more successful economically than the trawler-based fishery on Newfoundland's south coast.

The terms inshore and offshore are at most a useful shorthand for the more significant distinctions between seasonal and year-round; between independent and processor-owned vessels; between day boats and those that stay out for one or more nights. The correct interpretation will always depend on the context. The fundamentals relate to the economic and social consequences of quota allocations in various regions and to various types of fishing technology. It is in this context that the inshore-offshore question will be treated throughout the Report.

The Atlantic Groundfish Management Plan

The inshore-offshore conflict has centred on groundfish allocations to various types of vessels, principally between trawlers over 100 feet and boats under 65 feet. These allocations are ultimately decided each year by the Minister of Fisheries and Oceans after extensive consultations and are set out in a document called the Atlantic Groundfish Management Plan.

In practice, a variety of factors have had to be accommodated in allocating resources among competing fleets. These have included proximity of the fleet to the resource,

community dependence, and the efficiency of fleet sectors. In the short term particularly, existing situations have necessitated greater emphasis on such factors as community dependence and proximity. In the longer term, maximization of net benefit should become the primary criterion.

If redfish is excluded, the trawler share of the total groundfish catch has changed relatively little over the past decade. The redfish catch by trawlers declined from a high of 138,000 t in 1973 to only 57,000 t in 1981. This drop was due to a drastic decline in the Gulf redfish stock after 1974 and to the recent weakness of the market for the species and is not attributable to the Management Plan or to government quota allocation decisions. The weakness in the market for redfish and the widespread re-orientation of the Canadian industry to salted and frozen cod has resulted in demands by trawlers for a greater share of the Total Allowable Catch (TAC) of cod, the species on which the inshore fishery has been traditionally dependent.

To summarize the situation as it now stands: the trawler share of total groundfish catches has undoubtedly declined, but this has been largely due to a drop in redfish. Since 1975, the trawler cod catch has risen in percentage terms much more rapidly than the inshore cod catch, but the latter has increased far more in absolute tonnage. Both fleet sectors have benefited from significant overall growth.

The inshore/offshore debate should therefore be about relative shares of growth and about its geographical location. This requires discussion of the allocation of Gulf cod and northern cod and the effect of the allocation on trawler fleets, particularly those based in the ports at the entry to the Gulf and on the south coast of Newfoundland.

Trawler Dependence on The Gulf

It is generally accepted that there is insufficient resource available in the Gulf to support the fleet of vessels based there. These vessels are incapable of fishing the rebuilding stocks off Nova Scotia and Newfoundland, in part because they are ice-bound in the winter months. In allocating access to Gulf groundfish, priority has therefore been given to vessels based in the Gulf.

Nova Scotia-based trawlers have, as a result of this policy, been displaced from the Gulf of St. Lawrence to fish more distant stocks off eastern Newfoundland and Labrador, as well as the rebuilding stocks on the Scotian Shelf. The decline in trawler catches of Gulf cod has been far more than offset by the increase in catches of northern cod and eastern Scotian Shelf cod (NAFO area 4VsW).

The dependence of trawlers on the Gulf in the early 1970s was not based on cod, but on redfish. Between 1971 and 1976 the Atlantic coast trawler fleet took, on average, almost 35 per cent of its total groundfish catch from the Gulf. Seventy per cent of that Gulf catch was redfish. The trawler landings of Gulf redfish dropped from 107,000 t in 1973 to 6400 t in 1977. This is the most dramatic decline ever to have taken place in a Canadian trawler fishery. The stock is now rebuilding, but the long-run TAC is forecast to be in the range of only 25 to 30 thousand tonnes.

Cod allocations in the Gulf for trawlers based elsewhere became an issue with the collapse of redfish and the increase of the Gulf cod TAC after 1976. Many of the age-

ing trawlers that had depended on Gulf redfish were not capable of taking part in the newly developing offshore northern cod fishery. And even those equipped for the northern fishery nevertheless wished to maintain a strong presence in the Gulf because of its proximity to their home ports in Nova Scotia and southwestern Newfoundland.

The struggle over Gulf cod allocations was, from the viewpoint of trawlers based in the western area of the Atlantic coast, an attempt to offset the northeasterly shift of offshore quotas (pulled by the northern cod) which was seen as inevitably weakening their competitive position. But from the perspective of fishermen and plant operators based in the Gulf, the trawlers had a mobility that would allow them to fish the growing stocks east of Newfoundland. Because the Gulf-based vessels didn't have this opportunity, they argued that Gulf stocks should be reserved for Gulf vessels. The government accepted this position. An exception was conceded in the case of the fleet of ageing side trawlers based in the so-called Gulf entrance ports such as Louisbourg and Petit de Grat in Nova Scotia and Burgeo, Ramea, Harbour Breton and Gaultois on the south coast of Newfoundland.

The decline in redfish stocks and the shift in the offshore resource base northeastward has placed these latter plants at a serious disadvantage in the emerging competitive environment. These developments are reflected in the catches of the side trawler fleet (more precisely, vessels over 100 feet but under 1050 horsepower, some of which are smaller stern trawlers). Their catches have declined absolutely since 1978, from about 79,000 t in that year to about 74,000 t in 1981, during which period their share of Atlantic coast groundfish landings fell from 13 to 9.5 per cent. This fleet is the only major sector to have experienced a decline in tonnage landed since 1978.

Contrary to a widely held view, the decline in groundfish landings at most of the Gulf entrance plants has not been the result of reduced cod catches in the Gulf or on St. Pierre Bank, but rather to the drop in Gulf redfish catches. In fact, despite restrictions in the groundfish management plan, the trawler cod landings from the Gulf and St. Pierre Bank have actually increased at a number of plants in the 1979-1981 period compared with the early 1970s. (On the other hand, inshore landings from these stocks have increased to a far greater extent, reflecting the priority given in allocations to the inshore sector.) Virtually all trawler plants have experienced a sharp decline in Gulf cod supply in the past two years. Trawler catches from these stocks peaked in 1976-78 as the fleet sought to adjust to the redfish collapse, but have fallen in the past three years to the point where they are only slightly above the catch levels of the early 1970s.

This background shows that the bitter debate over the allocation of Gulf cod to trawlers cannot be founded on a claim by trawler operators of entitlement to a major traditional fishery for Gulf cod, except perhaps in the case of a very few plants. The issue is that the rebuilding cod stocks in the Gulf provided the trawler fleets based in Nova Scotia and in southwestern Newfoundland with a potential avenue of adjustment following the collapse of their traditional redfish fishery. Having begun that adjustment in the mid-1970s, the avenue was blocked by allocations policy, and some of the plants have not been in a position to make the investment necessary to develop an alternative fishery for northern cod.

Because present groundfish quotas are fully allocated, an improved supply to the plants formerly dependent on the Gulf can only be provided by (1) a re-allocation of

existing quotas; (2) a reduction in the number of plants to permit a better resource supply to those that remain; or (3) a share of growth in the TAC for stocks that are still rebuilding (e.g., northern cod). But a re-allocation of existing quota would largely shift the problem from one group of fishermen and communities to another, so that the solution must lie in some combination of plant rationalization and reinvestment to enable participation in those fisheries where growth is foreseen.

Does the Trawler Fleet Have A Future?

The question is facetiously phrased, because the Task Force believes that the answer is yes. Some trawler operators have nonetheless posed the question in light of what they have perceived as a growing imbalance in allocations policy in favour of the inshore sector. Others have questioned the effect of escalating fuel costs and the enormous capital cost of trawlers, factors that in the longer run seemed to favour a fishery exclusively carried out with smaller vessels and passive gear — for example, longliners. The Task Force agrees that continuing evolution of technology in this latter direction is likely, but this does not imply the disappearance of trawlers from the Atlantic fishery.

The offshore trawler is, and for some time will remain, a very productive and economically efficient fishing machine. No other practical method has been developed to fish year round throughout the Canadian zone, nor is there any other gear type that can exploit the large offshore stocks of redfish and flounder. These species could not be caught in quantity by inshore fishermen or by fixed gear even if trawlers were to disappear.

The economic performance of the trawler fleet has been questioned in view of the poor financial results of the major trawler operating companies. The causes of the financial woes of these companies are numerous and complex and different in certain essential respects for each company. The cost of fish landed by their trawlers does not, however, appear to be a significant cause of their distress.

Trawlers land fish at an average cost per pound (about 25 cents in 1981) that is comparable to prices paid for inshore fish. The advantage of the trawler is the year-round supply of a mix of species that it delivers on a regular schedule to a plant. The disadvantage is the increasingly large amount of capital that must be tied up to acquire new trawlers and the inherently large fuel consumption of any fishing method that must hunt for fish and then tow a large net through the water to catch it.

On balance, given (1) the successful rebuilding of Canadian groundfish stocks and corresponding high catch rates; (2) the introduction of enterprise allocations to the trawler fishery to permit much better use of capital invested in the fleet; (3) the fact that Canada's principal competitor, Iceland, has turned increasingly to trawlers and therefore must also bear the cost of this technology; and (4) that there is no practical alternative method with the versatility and year-round capability of a stern trawler, it is safe to conclude that the trawler fleet will play an important part in the future of the groundfish fishery.

Offshore and Inshore Prices

One of the most persistent misunderstandings that has grown out of the inshore-offshore debate concerns the way in which offshore fish prices are determined. The misunderstanding is significant because it has led to the view, remarkably widely held, that offshore prices are kept deliberately low by the trawler companies in order to

keep down prices paid to independent inshore fishermen. This has added fuel to the already bitter debate between inshore and offshore interests.

The price paid by plants for fish delivered by offshore trawlers owned by the same company is artificial, because seller and buyer are one and the same. Such a price is usually called a 'transfer price'. It is often argued that the price is therefore set unreasonably low, causing the trawlers to lose money, thereby establishing a low norm for inshore prices.

What is not understood is that offshore 'prices' are not really prices at all and bear almost no relation to the prices paid to independent fishermen. The captain and crew of offshore trawlers are paid according to what is called a 'lay arrangement', which is a negotiated agreement for sharing the value of the catch between the crew and vessel owner. The crew share is equal to the 'offshore price' (or a certain average percentage of that price) multiplied by the pounds landed.

The essential point is that the 'prices' are negotiated with the trawler unions with a target annual income implicitly in mind. The negotiated offshore price of fish is comparable to an hourly wage rate. There are differences, in that income doesn't depend directly on hours worked and is subject to the risk of the catch. But certainly, trawler prices are not comparable to dockside prices paid to independent fishermen.

For example, a recent trawler contract in Newfoundland listed a price to fishermen for large cod of 5.9675 cents per pound. The Newfoundland inshore price was 24 cents per pound for a comparable fish. The inshore fisherman must pay all his vessel expenses, including his crew, from the price he receives. The offshore price represents, in effect, only a payment to captains and crew. The two prices are therefore fundamentally different in character.

The more significant issue — the effect of offshore prices on inshore prices — can now be placed in proper perspective. Inshore prices reflect conditions of supply and demand in the port market, whether these prices are negotiated, as in Newfoundland, or competitively determined, as in other provinces. Landings by offshore trawlers add to overall supply and therefore, in theory, place downward pressure on the price of inshore fish. But if trawlers were to disappear and the same amount of fish were landed instead by other inshore vessels, there would be a similar effect on price. In fact, in this case there would tend to be greater downward pressure on prices, because the additional inshore supply would be landed largely in the peak inshore period when demand by processors for raw material was already softening.

It is obvious that any effect of offshore landings on inshore prices must be very indirect, because only relatively few plants have any access at all to trawler fish. Inshore prices thus reflect the competition for supply among processors who are not supplied by trawlers. Trawler-fed plants purchase very little inshore fish and therefore are not an important direct factor in determining inshore prices. The trawler fish does of course end up in the final market competing with inshore fish. But roughly speaking, it is the total supply offered for sale that determines the final market price, not the original source of that supply.

The Whole Problem is . . .

There is an abundance of simple theories to explain the problems of the fishery. All contain an element of truth, but all are seriously incomplete. Theories explaining the latest crisis in the Atlantic fishery reflect the particular perspective of the proponent:

- Those with a financial orientation cite the effect of interest rate increases applied to very high capital debt undertaken when the industry expanded between 1977

and 1980 and to rapidly rising bank loans to finance larger inventories and accumulating losses.

- Plant and vessel operators usually focus on escalating operating costs — particularly those for fuel, wages and fishing gear.
- Marketers are preoccupied with the sluggishness of prices which, for frozen groundfish products as a whole, have declined in real terms since 1979.
- Many observers of the industry cite inadequate quality as the main source of market weakness and as an important contributor to high production costs in plants.
- A number of government spokesmen have laid most of the blame on the export marketing performance of the private sector, citing a lack of discipline, reflected in excessive cut-throat competition and an inability to expand the market base beyond the United States. Poor management in the processing sector is also cited by many in government and some in the industry as well.
- Representatives of the processing industry as well as some fishermen's groups claim that the main culprit has been excessive regulation and the priority placed on social objectives by government.

All these factors have contributed to the current problems of the industry. The weight of the contribution varies with the circumstances of the individual business. This variability makes simple analysis impossible. Nevertheless, an abundance of firmly held simple theories exists, and will probably continue to do so, as the different groups involved in the fishery seek to place all the blame for its problems on others. As with many political issues, where you stand depends on where you sit.

Many of the issues outlined above are treated in the next three chapters, where the results of several comprehensive studies undertaken for the Task Force are summarized. As the analyses show, none of the simple statements paraphrased above can adequately explain the problems of the Atlantic fishery, no matter how much some people would like them to.

II The Industry Environment

4. The Economic Condition of Fishermen, their Households, Communities and Enterprises

If the inshore fishermen were forced to abandon the fishery, they face the prospect of immediately accepting social assistance or immediately seeking employment outside the province and probably the nation. . . . Inability to participate in the fishery becomes inability to participate in the work of society.

*Newfoundland and Labrador Royal
Commission on the Inshore
Fishery, 1981.*

More than one-quarter of the total population of the Atlantic provinces lives in small fishing communities. The Task Force identified a total of 1339 small fishing communities in Newfoundland and the Maritimes. At least half these communities have essentially single-sector economies, with fishing and processing plant employment occupying 30 per cent or more of the labour force. These facts alone highlight the cultural, economic and community significance of the fishing industry throughout the Atlantic region (Figure 4.1).

While some processing plant jobs are located in larger urban centres, and while some fishermen (notably, trawler crew members) may live in larger cities or in inland villages, the largest portion of processing plant jobs and fishing employment is located in small fishing communities. We have estimated conservatively that at least 62,250 direct jobs from the fishing industry are located in the small communities referred to above.

Task Force Survey

One of the background studies carried out by the Task Force was a major survey of the incomes and expenditures of Atlantic coast fishermen. Over 1300 fishermen in Newfoundland and the Maritimes were asked to take part in this survey, and a large proportion agreed. (We were unable to carry out our survey in Québec, so that the statistics that follow include data from only Newfoundland and the Maritimes.) The information gathered in this survey, together with research on related matters such as fishing communities, fishing vessel financing, employment at fish processing plants, and unemployment insurance payments, provided the Task Force with excellent information on how fishermen and their families make ends meet.

Numbers of Fishermen

Estimates of the number of fishermen must distinguish between full-timers and part-timers. Everyone who intends to fish commercially must purchase a personal licence from the Department of Fisheries and Oceans. Full-time licences are issued to those who normally fish all or most of the season available to them in their localities. Those who fish for shorter periods are eligible for part-time licences. In 1981, 48,434 personal commercial licences were issued, divided almost equally between full-timers and part-timers (full-time, 24,269; part-time, 24,165). Commercial fishing vessels are also licensed; the debate on whether the man or the boat should be licensed is, in fact, an issue relating to the transferability of fishing privileges. This is discussed in greater detail in Chapter 10.

It is equally important to distinguish between the number of licences issued and the number of individuals who actually used their licences during the fishing year. From our survey, we estimate that close to 97 per cent of full-timers used their licences in 1981, while only 72 per cent of part-timers used theirs. We conclude from our survey results that just under 41,000 commercial licence holders actually went fishing at some point in 1981.

Inaccurate reports on the total number of fishermen have been used in recent years to criticize the supposed productivity of Canada's east coast fishing industry. The Task Force has concluded that there were an estimated 27,800 'bona fide' fishermen in 1981. This total is significantly smaller than the number previously reported in some publications, but it still means that fishing is the largest employer in the non-government sector of the Atlantic region economy. We include as bona fide fishermen all the full-timers who actually used their licences during 1981 (about 23,400 people) plus 25 per cent of the users of part-time licences (about 4400 people) because these part-timers earn fishing revenues at a level similar to full-timers.

Full-time and Part-time

The licensing distinction between part-time and full-time fishermen, based administratively on time spent fishing during the local season, has a valid basis in terms of incomes generated. Incomes earned from fishing by approximately 75 per cent of part-timers serve as a supplement to the incomes they earn from non-fishing sources. For many of these licence holders, part-time fishing is more of a cultural and family tradition than a source of reliable earnings.

However, fishing incomes for approximately 25 per cent of part-timers amount to significant levels, similar to the incomes generated by many full-time fishermen. Any attempt to restrict the fishing activities of part-timers would need to identify how these participants could be expected to make up for the loss in their current fishing revenues.

Both full-time and part-time fishermen tend to be older than other Atlantic region workers. Although there has been some entry of women into the industry recently, fishing activity is carried on predominately by men (over 96 per cent of licence holders are male). The tendency for fishermen to be somewhat older than the rest of the labour force is explained by factors such as the time required to learn this complex skill, the need for stable work habits, and the need for considerable personal investment to become a skipper or part-owner of a boat.

While fishing is inherently seasonal (due to natural factors such as weather, ice conditions, the availability of fish), it is clearly seen as a year-round activity by bona fide fishermen. The actual length of local fishing seasons varies widely, depending on geographic location, size of vessel, type of gear used, species sought, or the type of licences held. But when preparation weeks and fishing weeks are added together, the amount of time required to be a fishermen prevents most full-timers from holding other jobs that would supplement their incomes significantly (Figure 4.2).

Part-time fishermen spend considerably less time in fishing activity than full-timers. Understandably, however, paid employment outside the fishing industry is widespread among part-timers, much more so than among full-timers.

Incomes from Fishing

There are striking differences between the fishing incomes earned by full-timers and most part-timers. (Figure 4.3; all income data refer to pre-tax figures.) On average, after all operating costs are deducted from revenues, the net fishing incomes earned by full-time fishermen are more than four times greater than the net incomes of part-timers (average full-time, \$11,907; average part-time, \$2783). This difference is explained by the fact that full-timers devote a longer work period to fishing, use larger vessels and more productive gear and hold more 'limited entry' fishing licences, giving them greater access to valuable species such as lobster, scallops, salmon and crab.

There are also wide variations in income between geographical areas. Full-timers earn the highest net incomes in southwest Nova Scotia and western New Brunswick, while the lowest incomes are earned in northeast Newfoundland and Labrador.

Figure 4.1
People, Communities, Plants and Jobs

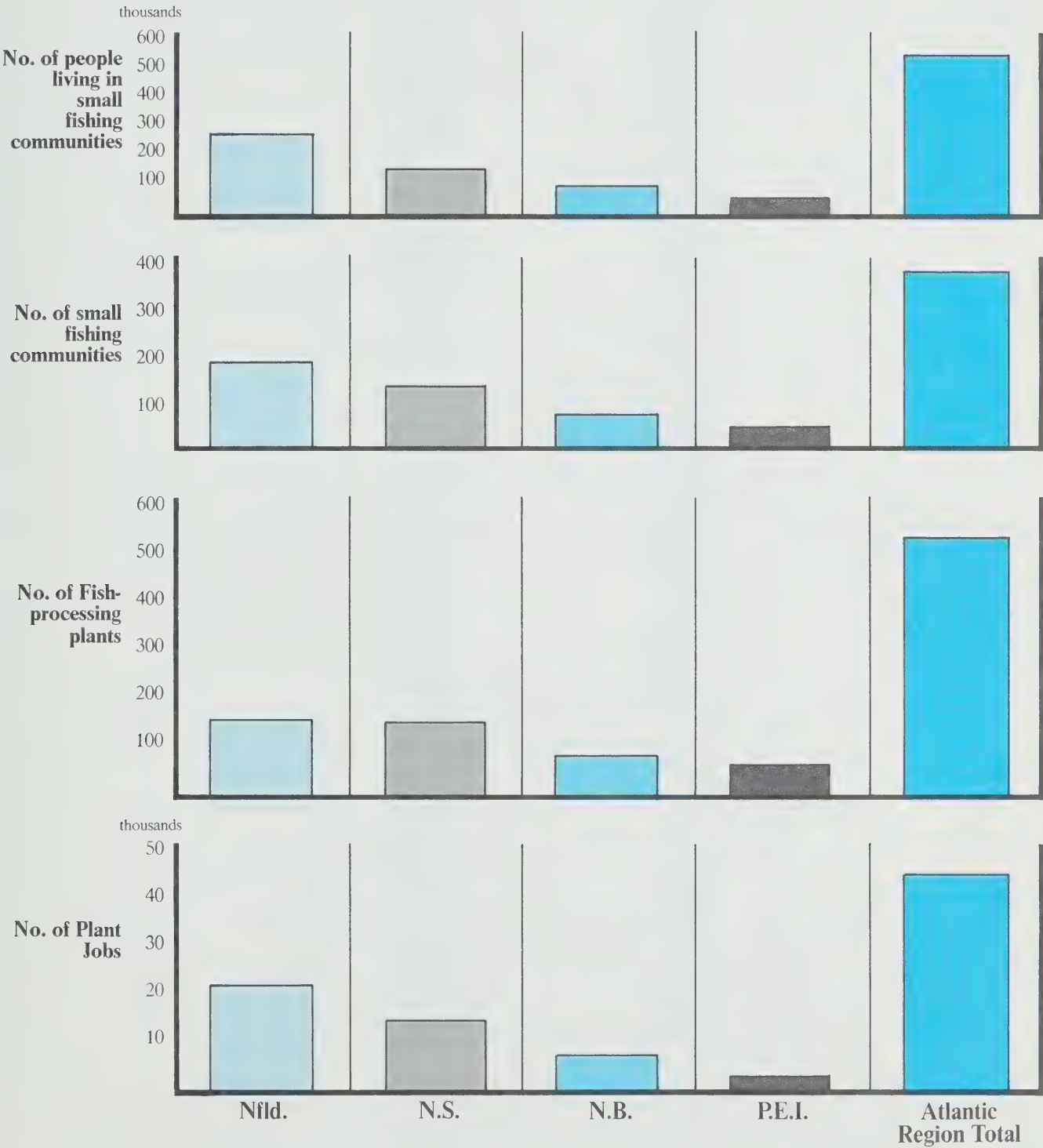
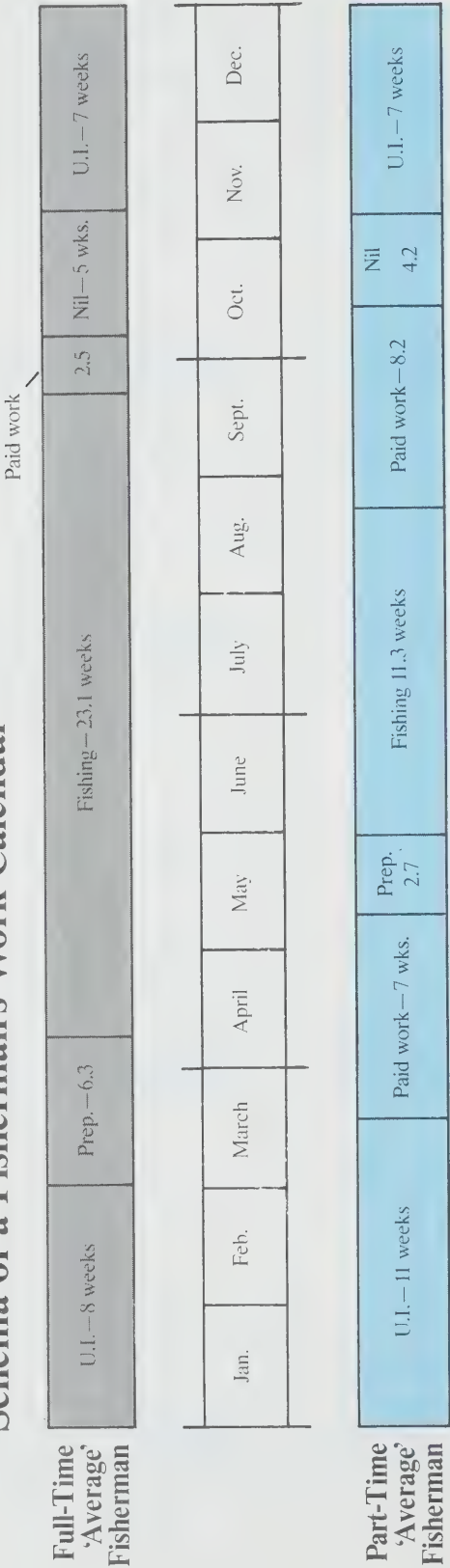


Figure 4.2
Schema of a Fisherman's Work Calendar



Note: The actual calendar dates of fishing activity will vary greatly, depending on local weather and ice conditions, availability of fish species, quotas, etc. But the schema gives a good indication of the pattern of work activity for average full-timers and part-timers.
Source: Task Force survey of fishermen and administrative data prepared for the Task Force by Canada Employment and Immigration.

- U.I. Unemployment Insurance
- Fishing Commercial Fishing Period
- Prep. Preparation of Gear for Fishing
- Paid Work Non-Fishing Paid Employment
- Nil Time Without any Cash Income

There are similar variations in the fishing incomes earned by part-time licence holders.

Fishing incomes also vary widely on the basis of individual skill, type of vessel and gear, and holdings of multiple licences. The title 'highliner' is used in fishing communities to identify individuals who earn top money and are recognized as the most skillful at their trade. The Task Force has defined highliners as the top 10 per cent of income earners. In 1981, the highliners among full-timers earned net fishing incomes \$23,350 or more, while the highliners among part-time fishermen earned \$6000 or more.

In summary, incomes earned from fishing activities remain low for a majority of full-time fishermen and for most part-time fishermen. Half the full-timers earned less than \$6500 from fishing in 1981, while half the part-timers earned less than \$840.

Non-fishing Income

Incomes from non-fishing sources are an important addition to fishermen's incomes (Figure 4.4). For full-timers, the most important source of income supplement is unemployment insurance; full-timers generally earn only small amounts from occasional non-fishing jobs. In contrast, part-timers add to their fishing incomes from a wide variety of paid jobs (such as construction, fish plants, logging and teaching). In effect, 75 per cent of part-time fishermen rely on non-fishing employment for most of their incomes.

In the past, some observers attached great importance to the income 'in kind' available to fishermen's households (for example, vegetable gardening, hunted game, or small-scale farming). The Task Force examined this argument and concluded that while incomes may be enhanced by retaining fish caught or by small game hunting, the net value for average households of such activities has been greatly exaggerated. Income in kind does not substantially supplement the earnings gained through fishing employment.

The combination of unemployment insurance benefits and earnings from non-fishing sources levels out the extreme differentials in fishing earnings of full-timers, as well as the differentials between full-timers and part-timers. Half the full-time fishermen had net incomes from all sources of \$11,000 or less in 1981. Half the part-timers had total net incomes of \$8648 or less (Figure 4.5).

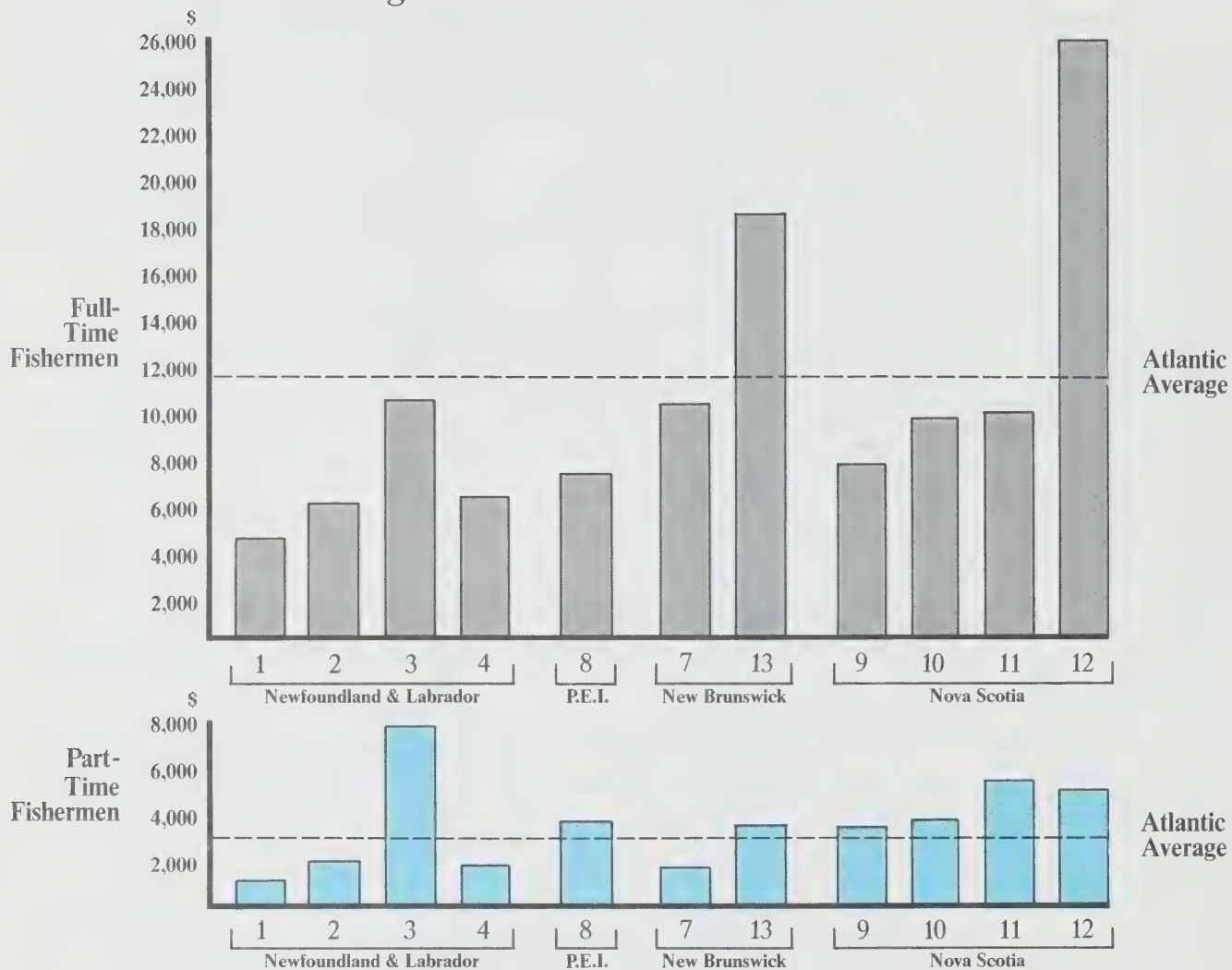
Even when all sources of cash income are taken into account, the net incomes of fishermen remain low; a sizeable majority of both full-timers and part-timers have total (pre-tax) incomes that, if they were the sole earners in their households, would place their households below the recognized poverty line for rural residents.

Household Incomes

Frequently, there are other earners in fishermen's households. The financial importance of non-fishing revenues brought in by other household members must be emphasized. Their most frequent income-earning occupations are fish plant work, store clerking, construction, secretarial work, teaching, nursing and public service (including municipal) employment. Additional household revenues from income transfers such as unemployment insurance, pensions and family allowance benefits are of great importance.

Taking all income sources into account, and noting that the average size of an east coast fishermen's household is four people, the Task Force has concluded that almost one-third of the households of full-time fishermen have total incomes below Canada's official rural poverty line. Among part-time fishermen, 40 per cent of households have total incomes below the rural poverty line. The geographic areas with the lowest household incomes are Labrador and northeast Newfoundland, east-

Figure 4.3
Average Net Income
from Fishing



Note: Key to Task Force Analytical Area numbers in Chapter 2.

Figure 4.4
The Average Fisherman
Amounts and Sources of Total Income
1981

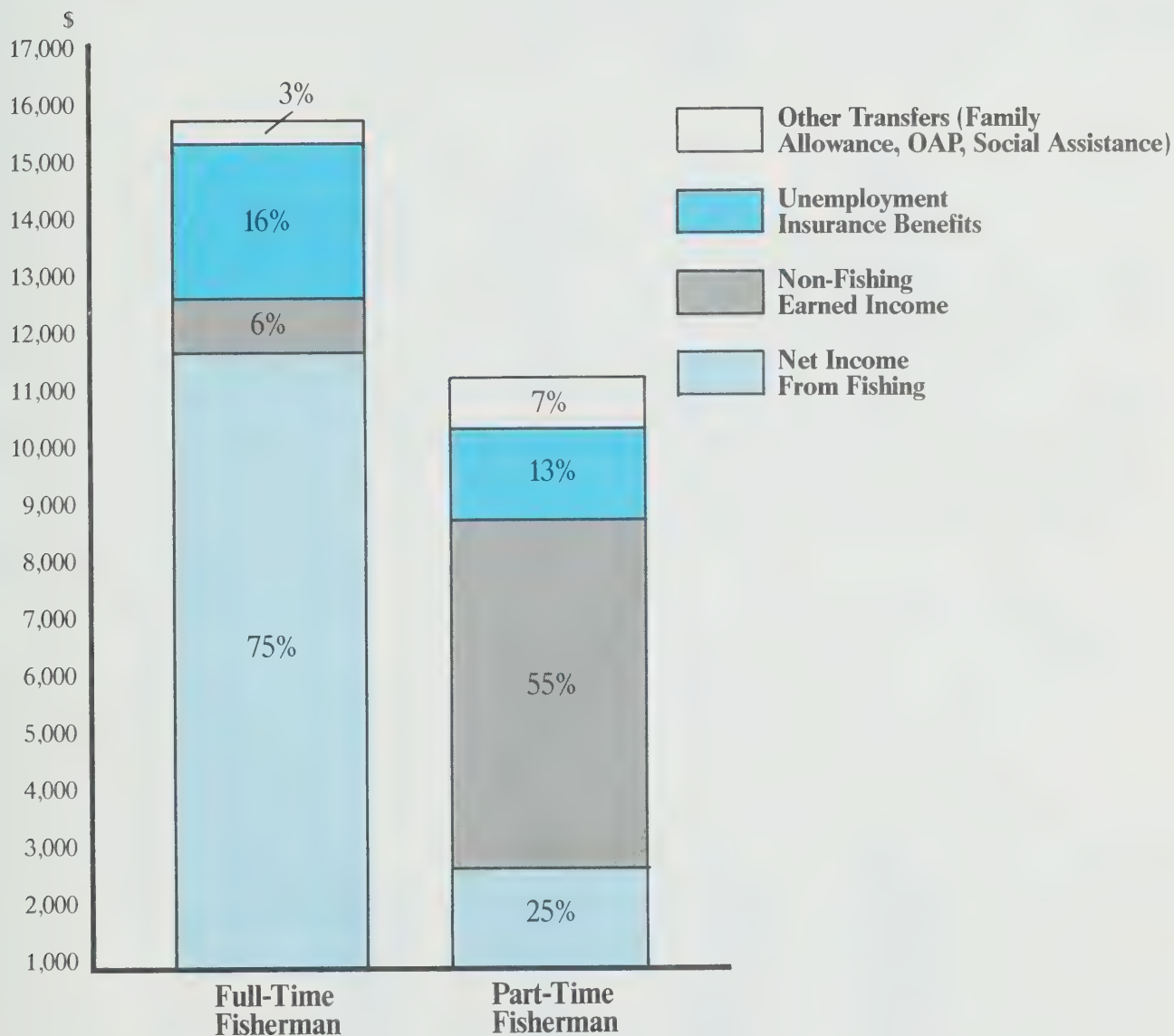
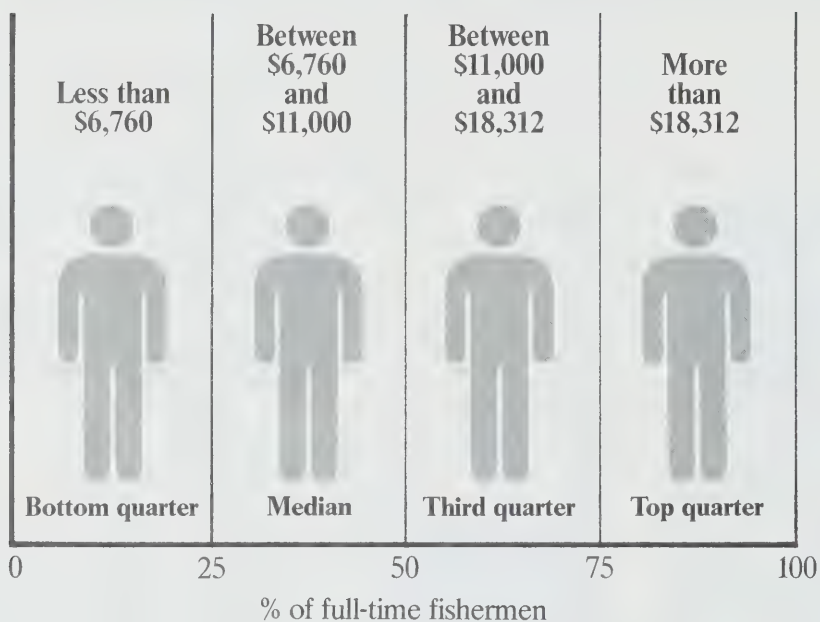
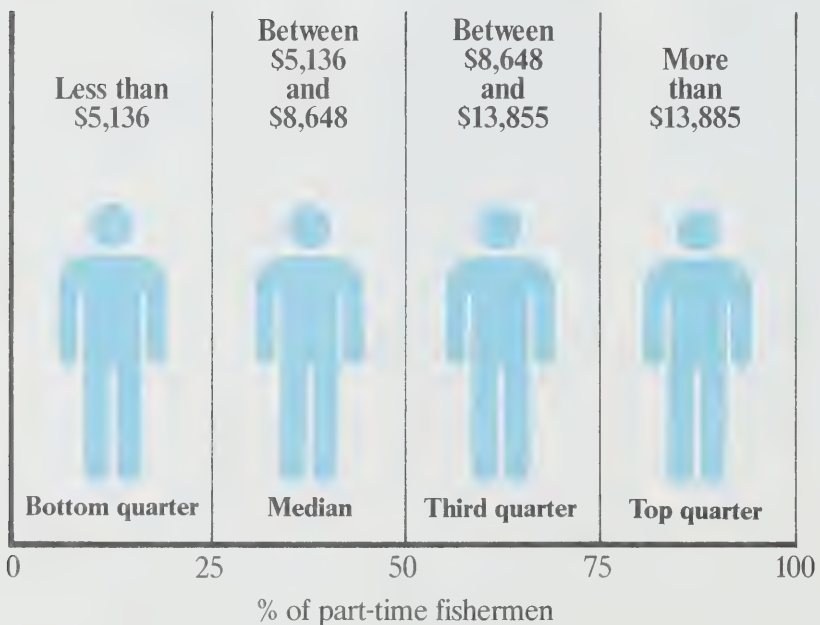


Figure 4.5
Total Income From All Sources For Fishermen

Full-time



Part-time



ern Newfoundland, Prince Edward Island, the Gulf side of Nova Scotia and eastern shore Nova Scotia (Figures 4.6 and 4.7).

Fishermen's unemployment insurance benefits continue to play a significant role in the composition of incomes for both full-timers and part-timers. The relative importance of UI payments will depend on the amount of earnings gained from fishing and non-fishing employment. In southwest Nova Scotia, where fishing incomes are highest, UI payments make up only 6 per cent of average total net incomes for full-timers. In northeast Newfoundland and Labrador, where earned incomes are lowest, UI payments account for almost one-third of average total net incomes for full-timers. Similar variations exist for part-timers.

Unemployment insurance payments are particularly important because of the time of the year in which they are received. UI benefits provide a primary source of cash income during off-season periods. They are vital for meeting household expenditures and for preparing equipment for the new fishing season.

Turning from fish harvesting to fish processing, the Task Force has concluded that processing plant activities create as many jobs (and almost as much income) as fishing itself. An estimated 48,000 jobs are generated through fish plant activities in the Atlantic region and Québec, though many of these are seasonal in nature.

Incomes from fish plant employment vary widely, depending on the type of job, the wage rate and the total duration of employment. We estimate the average income of a fish plant worker in 1981 to be about \$4520. Hourly wage rates vary significantly between provinces, with the lowest wages paid in New Brunswick and the highest in Newfoundland, which suggests that collective bargaining in Newfoundland (and, to a lesser extent, in Nova Scotia) has led to distinctly higher wages for unionized plant workers.

Fish plant employment is the most important source of non-fishing earnings in the households of fishermen. Approximately 20 per cent of fishermen's households had one or more members working in fish plants in 1981. There is a particularly strong link between plant employment and fishermen's households in Newfoundland and in northeast New Brunswick; the link is weakest in Nova Scotia.

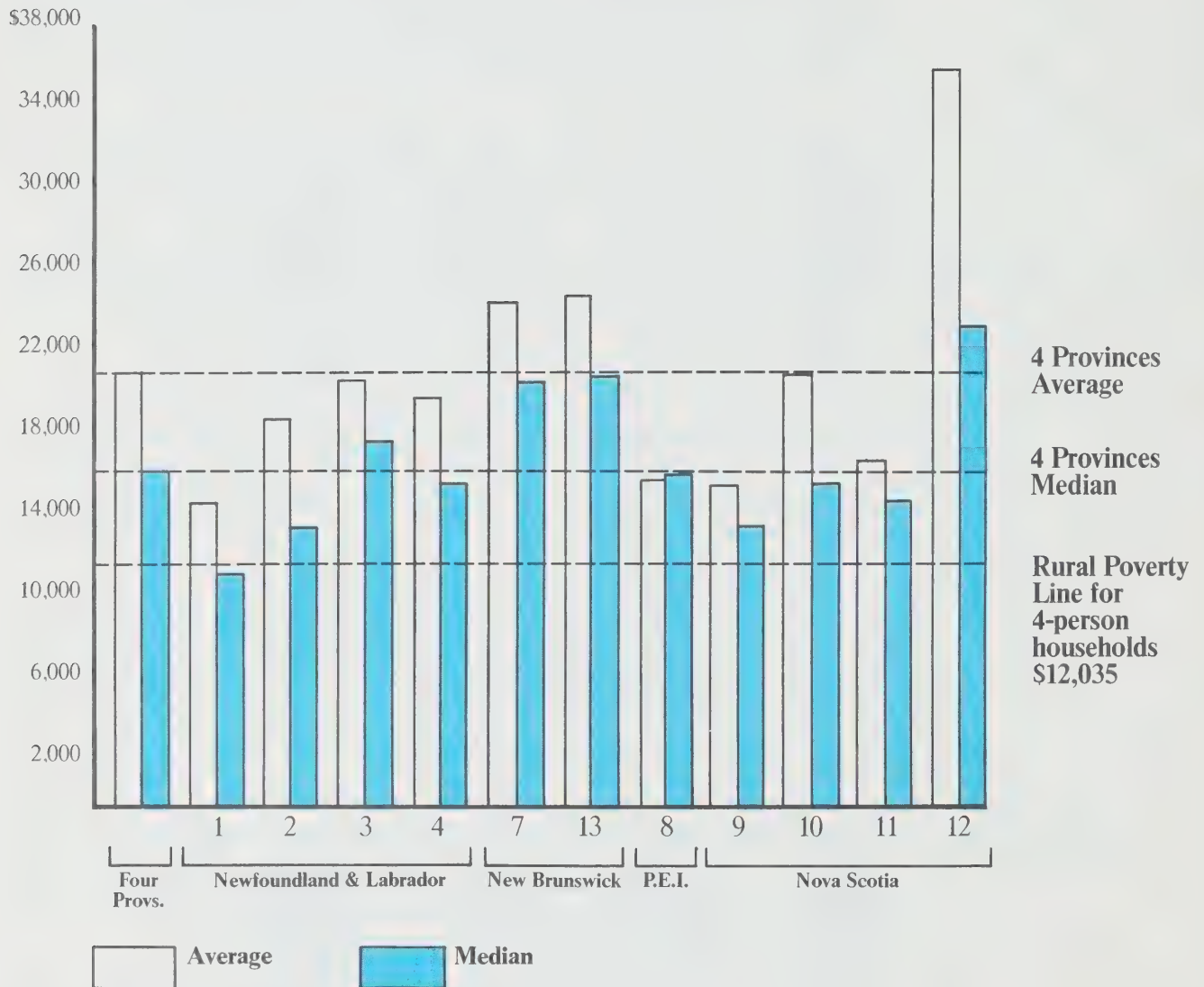
Fishermen as Small Businessmen

Turning to fishing as a business, the incomes generated by fishing enterprises do not provide a sufficient savings base for capital accumulation and investment in vessels, repairs, new gear, electronic aids and so on. Until there is a major change in this income situation there will be a continuing need for capital investment assistance from provincial fisheries loan boards, or from new forms of capital investment institutions, perhaps in the form of a 'national fishermen's credit union'.

Two new factors in recent years are adding to the difficult financial situation facing boat-owning fishermen. Both factors relate to the conditions attached to loans from provincial loan boards for financing new investment. The first is that provincial boards have raised their interest rates closer to market levels, rather than leaving them at the concessionary levels previously available. The second factor is that the boards have increased the cash amounts they require as downpayments. This rise in interest rates and downpayment requirements has been particularly steep in Nova Scotia, but has also been significant in other provinces.

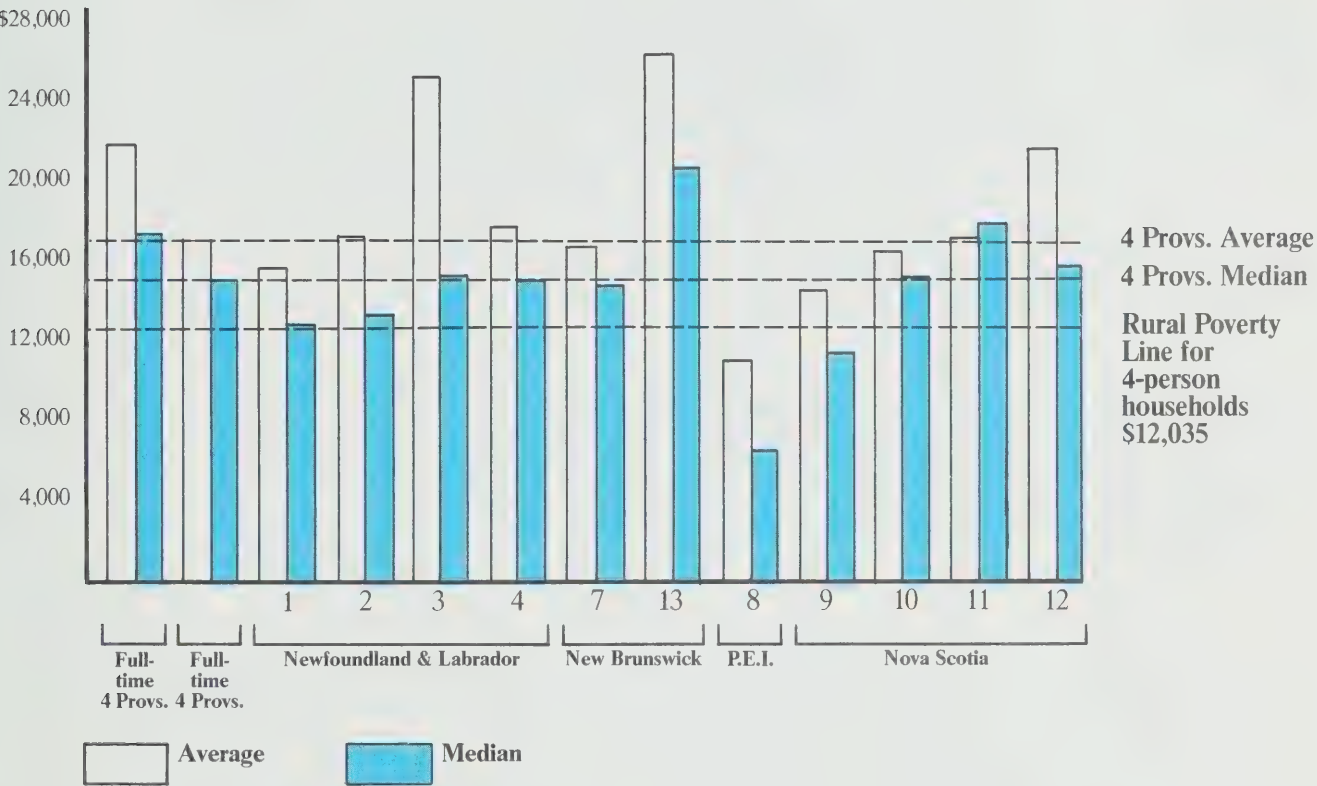
A measure of the current difficulties of fishermen who own their vessels is the level of outstanding debt, which has increased dramatically since 1977, to \$220 million. Over the five-year period between 1977 and 1982, total indebtedness to fisheries loan boards increased by 400 per cent.

Figure 4.6
Distribution of Total Household
Income in Analytical Areas
(Households of Full-time Fishermen)



Key to Analytical Areas on map in Chapter 2.

Figure 4.7
Distribution of Total Household
Income in Analytical Areas
(Households of Part-time Fishermen)



So serious is the financial problem that many fishermen are not even able to pay off their outstanding loans, much less accumulate the capital to acquire new vessels. There has been a dramatic drop in the rate at which fishermen are repaying their loans, and payments are declining steadily as a proportion of the amounts outstanding.

A basic question arises: will fishermen be able to raise the money needed for new investments or the cash needed for working capital at the start of a season (for bait, new nets, fuel and food)? The recent restrictive policies of provincial loan boards, the parallel reduction in federal vessel subsidies and the generally poor state of fishermen's earnings contribute to a generally gloomy outlook. Clearly, steps are needed to correct the problems and deficiencies identified and analyzed in this chapter. These are the issues to which we return in Chapters 18 and 19.

5. The Economic Condition of the Processing Sector

We may define business in a broad, general way as the art of losing money.

Stephen Leacock

The fish processing industry on Canada's Atlantic coast is in financial crisis. The crisis does not affect every company or every area to the same degree, but no enterprise has been untouched by the negative economic developments in the industry since 1979. The dimensions of the financial decline have only recently become fully known as a result of an extensive survey undertaken for the Task Force by Woods Gordon management consultants.

The Woods Gordon study is based on a sample of some 100 processing enterprises that in 1981 had sales of \$940 million. It thus covers about 80 per cent (by sales value) of the industry and is believed to account for an even higher percentage of the groundfish trade.

This summary of Chapter 5 of the Task Force Report is a highly condensed account of the findings of the Woods Gordon survey, the most comprehensive of its kind ever undertaken of the industry. Those who want a detailed analysis of the financial position of the processing sector will want to refer to the main Report; our purpose here is to present our conclusions on the outlook for the industry in as clear and concise a way as possible. Thus, much of the detail is left out in the interest of brevity and clarity.

Financial Performance

By adding up the financial statements of the 100 plants in the Woods Gordon sample, we get a concise picture of the overall financial performance of the industry. Table 5.1 thus shows the combined profits and losses, as a percentage of sales, for all the companies surveyed, in the form of an income statement for 1978 and 1981, the best and worst years for the industry in at least the last five. 'Cost of sales' is the direct cost of producing fish products in the plant — raw material, labour, packaging, plant overheads. Selling, general and administrative expenses (SGA) include commissions to salesmen, travel and all head office salaries and expenses. Long-term interest is charged on money borrowed for fixed assets — boats, buildings, and so on. Short-term interest is charged on bank loans generally taken out to cover the cost of producing fish before sales revenue is received.

The two most important items are *gross margin* — the profit from operations before payment of administrative and interest charges — this is the key indicator of industry performance; and *net income* — the 'bottom line'.

To assess the structure of an income statement and to make year to year changes more apparent, it is helpful to express items as a percentage of net sales. This is done in Table 5.1. (All the percentages may be converted to dollars given that 1978 and 1981 sales were \$642 million and \$940 million respectively). The values are meaningful only in relation to the scale of activity. For example, in 1981 for the consolidated sample, gross margin was 12 per cent of sales, while net income, in fact a loss, was -6 per cent. All negative figures are shown in parentheses.

Between 1978 and the end of 1981, net income dropped 10.6 percentage points of sales. Pre-tax income (the more accurate performance measure) declined 14.2 percentage points of sales. In absolute terms, the enterprises surveyed together lost \$57 million in 1981, after a loss of \$22 million in 1980. Even those that made money in

Table 5.1
Consolidated Income Statement as a Percentage of Sales, 1978 and 1981

		1978	1981	Difference (in percentage points)
	Sales	100%	100%	
<i>less</i>	Cost of Sales	80.9	88.0	7.1
<i>equals</i>	Gross Margin	19.1	12.0	—7.1
<i>plus</i>	Other Income	0.8	1.1	0.3
<i>less</i>	SGA*	8.5	9.9	1.4
<i>less</i>	Long-term Interest	1.3	2.8	1.5
<i>less</i>	Short-term Interest	0.9	4.8	3.9
<i>less</i>	Depreciation	2.2	2.8	0.6
<i>equals</i>	Pre-Tax Income (Loss)	7.0	(7.2)	—14.2
<i>less</i>	Tax (Recovery)	2.4	(0.8)	—3.2
<i>plus</i>	Extraordinary Items	—	0.4	0.4
<i>equals</i>	Net Income (Loss)	4.6	(6.0)	—10.6

* Selling, general and administrative expenses.

Source: Woods Gordon.

1981 had total profits of only \$6.2 million. The extent of the decline is shown graphically in Figure 5.1.

The key financial data of the industry are summarized for the five years 1977-1981 in Table 5.2. The figures show that the decline between 1978 and 1980 was due mainly to falling gross margin. In 1981 there was a small recovery of margin, apparently due to slightly higher market returns and tighter cost control. But the recovery of margin was far more than offset by increased interest cost — from 4.5 per cent of sales in 1980 to 7.7 per cent of sales in 1981, corresponding to an increase of \$24 million.

Table 5.2
Consolidated Financial Results, 1977-1981
 (\$ millions or per cent of sales)

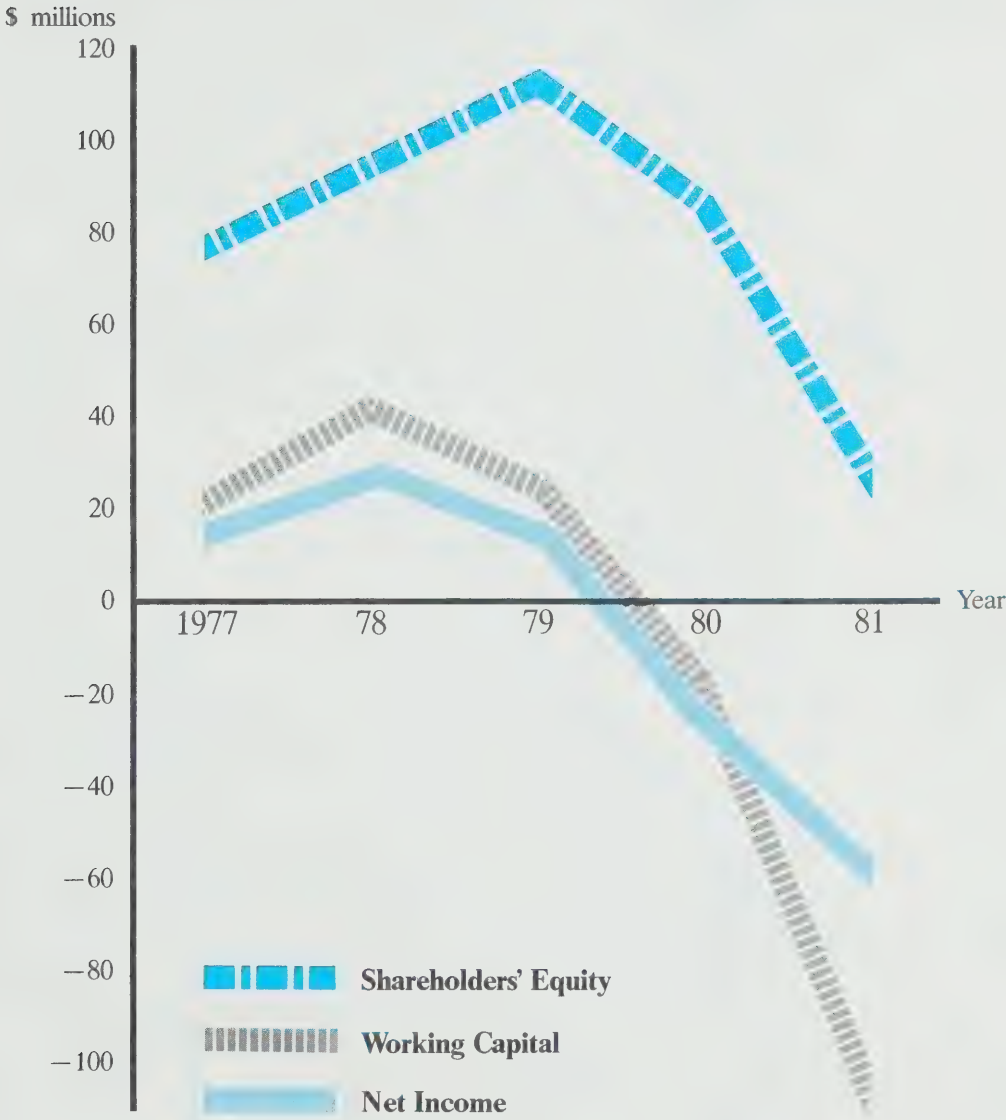
	1977	1978	1979	1980	1981
Sales	\$494	\$642	\$825	\$848	\$940
Gross Margin	18%	19%	16%	11%	12%
SGA	9%	9%	9%	10%	10%
Long-term Interest	1%	1%	2%	2%	3%
Short-term Interest	1%	1%	2%	2%	5%
Pre-tax Income	6%	6%	1%	(4%)	(7%)
Net Income (Loss)	\$ 18	\$ 29	\$ 14	(\$22)	(\$57)
Total Assets	\$289	\$419	\$583	\$668	\$706
Net Fixed Assets	\$114	\$148	\$218	\$272	\$295
Long-term Debt	\$ 77	\$112	\$170	\$226	\$244
Short-term Debt	\$ 45	\$ 87	\$151	\$206	\$276
Working Capital ¹	\$ 21	\$ 36	\$ 26	(\$14)	(\$106)
Equity	\$ 78	\$ 93	\$113	\$ 88	\$ 26
Equity/Assets	26.9%	22.3%	19.3%	13.3%	3.7%
Return on Assets ²	6.4%	6.9%	2.4%	Neg.	Neg.

¹ Defined as current assets (e.g., inventories of goods and accounts receivable) less current liabilities (e.g., short-term loans and accounts payable). Negative working capital means that a firm cannot meet its short-term financial obligations.

² Defined as net income divided by total assets.

Source: Woods Gordon.

Figure 5.1
Decline of the Processing Sector



Source: Table 5.6 in the Task Force Report

As simplistic as it sounds, the present financial crisis is the result of costs rising more rapidly than revenues. The severity of the financial crisis became generally evident in mid-1981, with the temporary closure of a number of large fish plants. Late in 1981, the federal government provided \$15 million in assistance to the processing sector, but by year's end a number of companies had approached both federal and provincial governments for further assistance. The financial position of many of these companies has deteriorated even further in 1982.

The financial malaise is widespread, and the causes of the decline are several. At the same time, there are certain factors that appear to be associated with the difficulties facing individual plants and companies. Our purpose is to understand these causes and factors and to suggest effective and enduring remedies for the problems plaguing the industry.

The Causes of Decline

The financial dynamics of a manufacturing business are simple to state. The market price less the unit cost of production multiplied by the volume of production must be sufficient to cover selling and administrative expenses, interest payments, depreciation, taxes and shareholders' profit. Otherwise, the business must, in the absence of subsidy, eventually fail.

It follows that, in looking for the causes of decline, we would seek clues principally in the movement of market prices, production costs, and processing capacity and volumes, but also in any other factors that might have a bearing on changes in financial performance.

Cycles in market price

The key precipitating factor in the financial crisis of 1980-81 was the flattening of market prices while costs continued to rise. This is a phenomenon in the economy at large, part of a cycle in groundfish prices that appears to have a low point every five or six years (see Figure 5.2). The origins of the cycle are not known, but the trough in 1980 and 1981 could be explained by the general economic recession which led consumers to switch from fish to less expensive proteins.

The extremely strong price performance of fish products between 1969 and 1978, interrupted only in 1974-75, compounded by the declaration of the 200-mile limit and the rapid increase in Atlantic coast landings, created extraordinary optimism in the industry, in governments and in the financial community. This, together with the inevitable competition among stake-holders to be first to take advantage of the opportunities of the 200-mile limit, accounts for the surge of investment and employment in the fishery between 1977 and 1980. Unfortunately, however, the new claimants on the fishing dollar — lenders, fishermen, plant workers and suppliers — represented costs that soon grew to offset the extraordinary increase in market price, leaving the industry once more floating in a sea of red ink.

The pattern of change over the past 20 years would suggest that the fishing industry is poised for a price recovery in 1982 or 1983. Indeed, there were already encouraging signs in 1982 of a recovery from the extremely sluggish prices of 1980 and 1981.

Unfortunately, no developments apparent in the industry point to a significant or sustained advance in average real selling prices, particularly for groundfish and her-ring products.

Cost of production

The operating profit (gross margin) of the industry is equal to sales revenue less the cost of production. The principal component of production costs in the industry is the raw material — the fish, which accounts for a little less than 60 per cent of the cost of sales. Direct labour costs (plant wages) are second in importance, making up

Figure 5.2
Annual Change in Real Market Price
of All Canadian Fish Products
(adjusted to subtract rate of inflation)



Source: Table 5.12 in the Task Force Report, derived from Statistics Canada data.

about 25 per cent of the cost for filleted products. Packaging and manufacturing materials contribute approximately 5 per cent, while manufacturing overheads account for the balance of roughly 15 to 20 per cent.

The contribution of materials and supplies to the value of fish products has increased over the past decade, and higher labour costs in the plants have been an equally significant factor in declining margins. Fish plants could accept declining margins if their selling and capital costs were falling. Unfortunately, they have been increasing.

To sum up our conclusions about the effects of market price and production cost changes, gross margins fell sharply after 1978, principally because the market price of fish failed to keep pace with general inflation, but also because of rising production costs. This cost/price squeeze appears to have begun to turn around in 1981. Market prices improved somewhat (although there were significant exceptions — plants dependent on flounder, redfish and herring fillets suffered severe losses as prices remained soft) and, at the same time, unit production costs appeared to have stabilized somewhat. This was due mainly to the fact that raw material costs — average dockside fish prices — did not increase appreciably in 1981. Other production costs, particularly wages for plant labour, continued to rise, however, suggesting that the apparent turnaround in unit production cost reflects not only lower raw material costs, but also tighter cost controls and greater efficiency in the industry. This encouraging trend appears to be continuing in 1982. However, because market price trends for groundfish and herring products suggest little in the way of real price increases, plants depending on these products will have to look to other means of continuing to improve margins — greater cost efficiency and better use of raw material through higher quality and up-graded products, which attract better market prices.

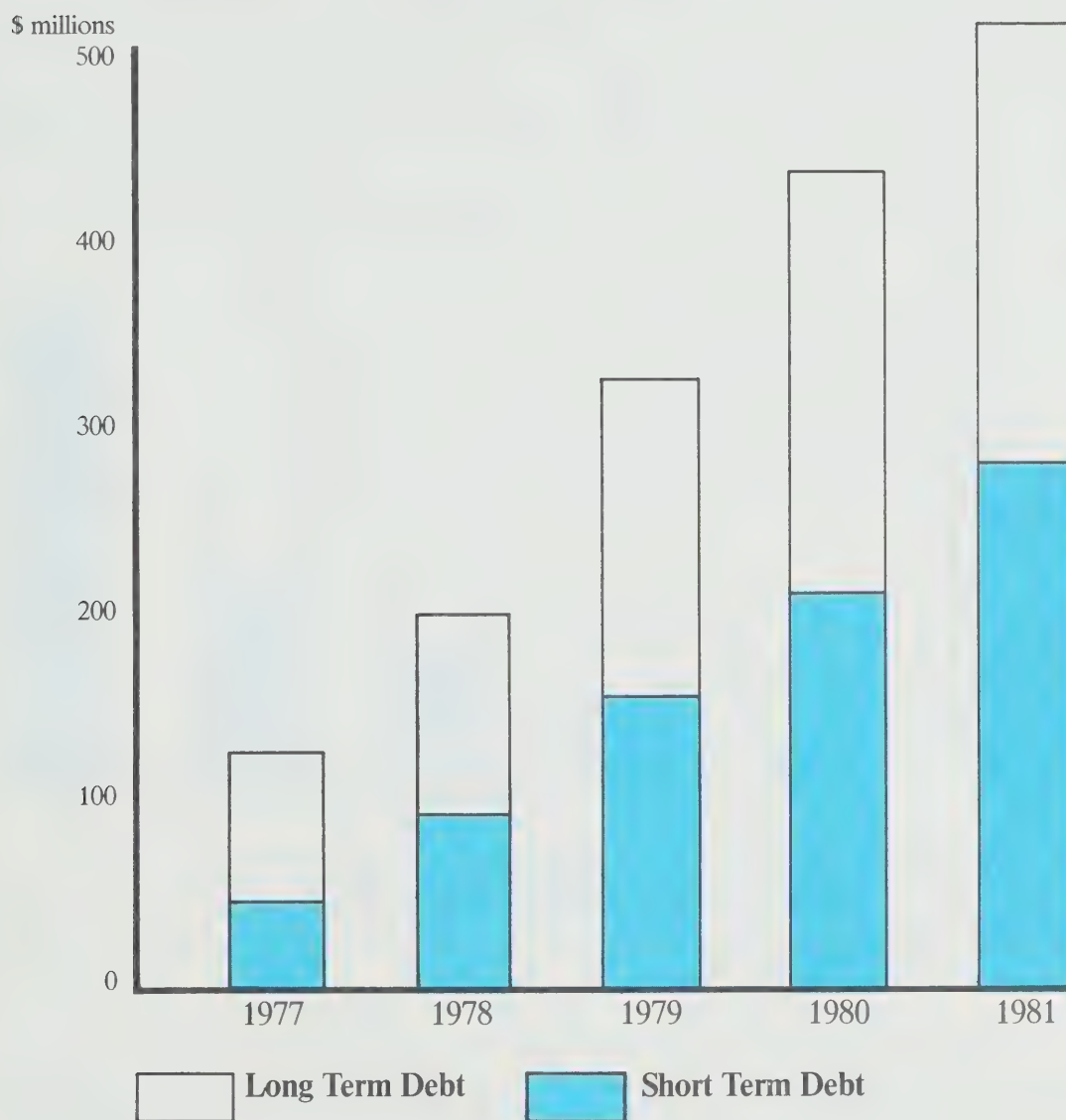
Cost of interest

The gross margin is only part of the financial picture. Before getting to the bottom line, interest must be paid on long-term funds borrowed to acquire capital assets — vessels, machinery, etc. — and on short-term bank loans to finance the day to day operations of the business. Increased interest costs — well above any level that could be associated with a normal growth in the scale of business or with inflation — were a major cause of the rapid deterioration in the financial condition of the industry during the past two years. Between 1978 and 1981, total interest expenses incurred by plants in the sample increased by \$58 million, 68 per cent of which was due to short-term loans and 32 per cent to interest on long-term debt (see Figures 5.3 and 5.4).

The cause of the rapid increase of the short-term bank loan balance was the lack of earnings from 1979 through 1981 during which time the sample plants incurred a net cumulative loss of \$65 million. A large number of plants suffered cash losses and therefore had to borrow to meet operating costs and to repay the current portion of principal due on long-term debt. Many companies meanwhile lacked the internally generated earnings to provide working capital to finance inventories and accounts receivable and therefore were forced to push their line of bank credit to the limit.

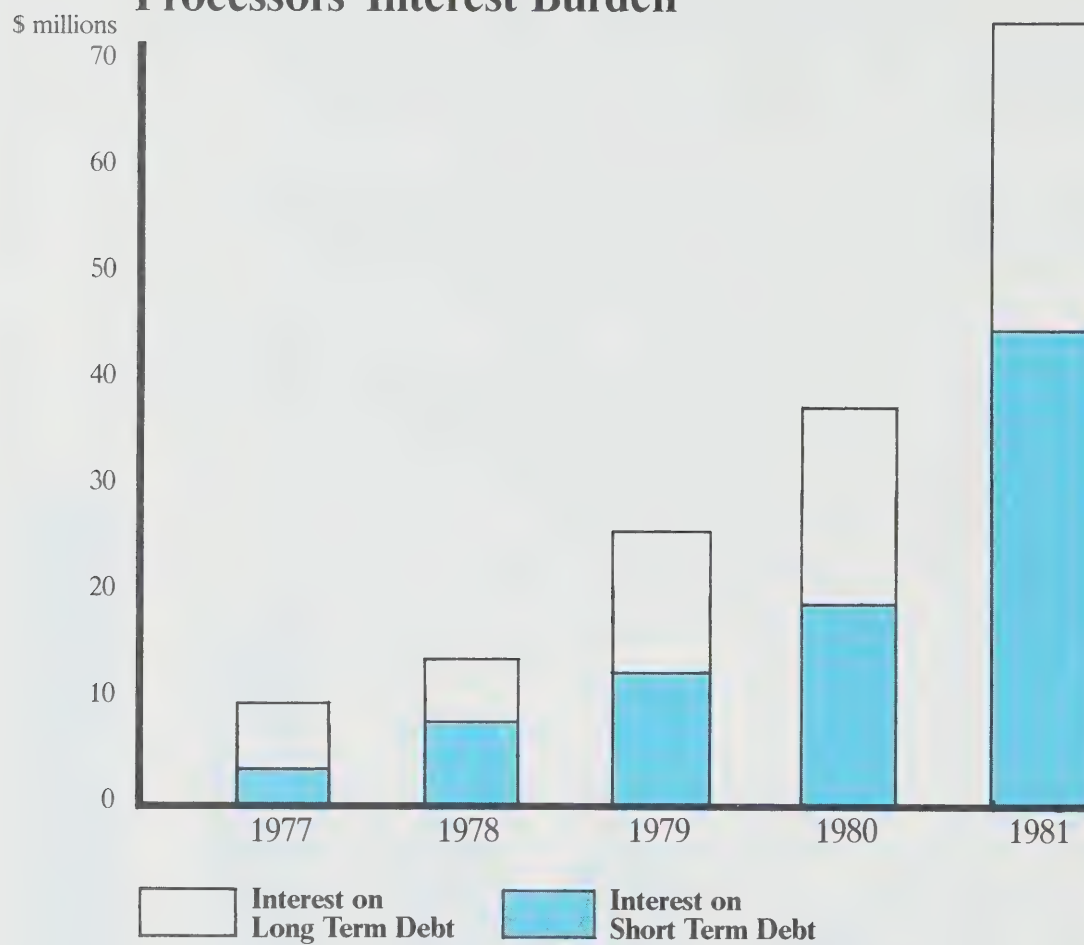
The use of bank credit to cover cash losses compounds the problem of a financially weak company by adding to fixed interest expense and often creating further losses. Once companies become severely indebted, there is little prospect of recovery in the absence of dramatic price increases or a restructuring of debt. This is because the operating cost structure of the industry is determined, at a gross level, by the competitive, or negotiated, price of fish and of labour. These prices tend toward levels such that the average business can generate enough gross margin to pay average interest charges. When interest rates increase in real terms, as they have since 1978,

Figure 5.3
Processors' Debt



Source: Table 5.6.

Figure 5.4
Processors' Interest Burden



Source: Woods Gordon.

Cost of excess processing capacity

gross margins in the industry must eventually increase to reflect this fundamental change in cost, but the increase would not normally be sufficient to offset the expense of excessive levels of dead-weight accumulated debt.

The subject of processing plant over-capacity (or under-utilization) has been studied repeatedly over the years. Most have concluded that although over-capacity causes financial problems, it is nevertheless needed to cope with the seasonal pattern of inshore landings, which peak sharply in most areas in June, July or August. For example, in July of 1980, 41,000 t of groundfish were landed in the east coast of Newfoundland. Total groundfish landings for the six months January to April and November-December were 46,000 t, a monthly average of only 20 per cent of the peak July catch. Squid and mackerel landings are usually even more concentrated.

The dilemma facing plant operators on Newfoundland's east coast, in parts of the Gulf and even in western Nova Scotia is the requirement to provide this large peaking capacity when they do not have sufficient off-peak production to sustain a major freezing plant. Yet without this capacity, it will not be possible to cope with increased inshore landings of northern cod or to support the development of the fisheries for squid, mackerel and capelin. Ultimately, a less seasonal fishery, with a more uniform annual supply of groundfish, is the most effective way to cope with excess freezing capacity and its associated costs. Ways of doing this are discussed in Chapter 11.

This is not to say that highly seasonal plants cannot be viable. They have lower annual throughputs, but also lower capital investment. The financial cost of excess (seasonal) capacity may be quite acceptable if the associated capital investment is sufficiently modest. The problem arises principally for the very large new seasonal plant investments since 1978, which were predicated on much higher throughput than has yet materialized. Increased interest rates have compounded the difficulty.

It might also be added that it has been extraordinarily difficult to remove redundant or inefficient capacity from the industry because of the high degree of community dependence on fish plant income once a facility is established. In fact, the closing of any fish plant, large or small, inevitably becomes a major political issue as communities exert pressure on the federal and provincial governments for financial assistance to keep plants open. The frequency with which governments have given in to this pressure has been a factor in sustaining over-capacity.

Is There a Formula for Success or Failure?

Although the factors just discussed — market prices, production costs, interest expenses, over-capacity — have all contributed in some measure to financial decline in the fishing business, it is still not possible to reduce the conditions for profitability to any short list of factors. There are successes and failures in every niche of the business, and no hypothesis yet tested has failed to produce exceptions. This is to be expected, for businesses exist in an environment where the mal-adapted eventually reform or disappear, but many unusual species survive because of some subtle combination of traits uniquely suited to a particular environment.

There is an additional factor in the fishery. Governments have been reluctant to permit business failure if, as a result, many jobs would be lost or markets for fishermen seriously disrupted. A number of exceedingly weak businesses have thus been able to continue despite a financial condition that in another industry would have produced bankruptcy. This makes the financial results of the industry worse than they would otherwise be, but to what extent is difficult to say.

The following analysis is at most indicative of broad tendencies. No conclusion can be applied without qualification to a single plant. It is also important to recognize

that the past is not necessarily a reliable guide to the future. The economic environment of the Canadian fishery is changing continually.

Enterprises that may have been well adapted in the past may not be as well suited for the future. Changes in policies and in access to the resource can also have dramatic effects on individual plants or areas. These caveats must temper the interpretation of the following results.

The Woods Gordon sample was divided, on the basis of overall performance between 1977 and 1981, into four groups of plants judged to have been (1) very successful; (2) moderately successful; (3) in sharp decline; and (4) very unsuccessful. (Six plants could not be classified unambiguously, but their omission has no effect on the conclusions.) While the assignment of plants to categories was not made according to a specific financial criterion, there was remarkably little ambiguity in the categorization. Judgements were made on the basis of stability and level of net income and margin throughout the period. The number of profitable and losing plant years for each group is shown in Table 5.3.

Table 5.3
Profitability of the Plant Categories
(number of plants)

	1977		1978		1979		1980		1981	
	P*	L*	P	L	P	L	P	L	P	L
Very successful	20	1	21	0	22	0	21	2	21	0
Moderately successful	20	3	24	0	23	2	22	3	4	21
Sharp decline	18	2	20	1	17	4	3	19	0	22
Very unsuccessful	9	6	8	10	3	18	1	21	0	23
Totals	67	12	73	11	65	24	47	45	25	66

* P denotes plants that were profitable in the year; L those that had losses.

Source: Woods Gordon.

The very successful group had only 3 losing years in a total of 108 plant-years, while the very unsuccessful group had 78 losing years in a total of 99. It is astonishing that several of them continued to operate. A large number of moderately successful plants became unprofitable in 1981, due largely to the effect of short-term interest expenses. The total loss of this group in 1981 was nevertheless a modest \$2.4 million on sales of \$345 million.

The 22 plants in sharp decline represent one-half of the financial problem of the industry. Their position has deteriorated from a profit of \$10 million in 1978 on sales of \$155 million to a loss of \$30.5 million in 1981 on sales of \$219 million.

The other, and perhaps more intractable, half of the problem exists in the 23 plants that show chronic financial weakness. Even in 1978, when the rest of the industry had its most successful year in a decade, these plants collectively lost \$1.1 million on sales of \$142 million. In 1981, they lost \$30 million on sales of \$222 million. The two unprofitable categories had a combined 1981 loss of \$60 million and accounted for 47 per cent of total sales in the sample. Their economic and social significance in the industry is enormous.

Table 5.4 presents a classification of the four plant categories according to their characteristics. Successful and unsuccessful plants can be found within any of the groups whose characteristics are given in Table 5.4. This substantiates the earlier remark that there is no cut and dried formula for success and no guarantees against failure.

The plants on Newfoundland's east coast tend to polarize toward the two extremes, with 55 per cent in the two low categories. Eight of the ten sample plants on the south coast are experiencing either sharp decline or chronic unprofitability. Almost two-thirds of Gulf plants fall into the successful categories, though it should be recalled that some of these have depreciated capital to offset low margins. Future profitability could therefore decline in some cases. Only two of Western Nova Scotia-Fundy's 21 plants in the sample fall into the chronically weak category, the lowest percentage among the five regions.

There are few very successful businesses among those specializing in frozen groundfish production (eight per cent in the sample). Twenty-five of the 40 plants so classified are either chronically weak or in sharp decline.

Saltfish specialists show the reverse performance, at least over the 1977-81 period. This may be a consequence of the weeding out of poorer saltfish producers when the industry nearly collapsed in the late 1960s and the near elimination of the Spanish and Portugese fleets from the Canadian cod fishery in 1977 and the subsequent strength of demand and price facing world suppliers of saltfish. Saltfish operations also are not capital intensive, and so have been able to avoid much of the interest rate squeeze.

The number of specialized herring plants in the sample is too small to provide general conclusions. Very successful herring plants probably occupy a special product niche; the others are apt to be in sharp decline as a result of market price and resource supply factors.

Plants specialized in 'other' species typically process mostly shellfish. They are, as expected, of above average performance though not as strong overall as saltfish producers.

Mixed species plants are defined as those that do not have more than 75 per cent of sales arising from any one product type. They are evenly distributed on the spectrum of performance, probably reflecting the range of sub-specializations in the group — for example, the more successful probably have a large component of saltfish or shellfish.

Performance factors

Sales volume does not appear to correlate significantly with overall performance. Very few of the largest plants (sales over \$14 million in 1981) are in either of the extreme categories. The larger intermediates (sales of \$8 to 14 million) appear to be relatively successful, although there are 7 that are chronically weak. The 16 plants with sales over \$8 million that are in sharp decline or very unsuccessful constitute an extremely serious problem because each is a cornerstone of a community economy.

There is no clear correlation between seasonality of operation and average performance. Nevertheless, it appears significant that over 60 per cent of the year-round plants fall into the two successful categories compared with only 30 per cent of those that operate six months or less. The effect of product mix may in fact be the underlying cause. For example, saltfish drying plants operate year round, while a number of frozen groundfish processors on the east coast of Newfoundland and in the Gulf are forced to be seasonal. Seasonality of operation does not, by itself, imply poor financial performance.

The break-down between plants of the Big 5 and independents reveals a dramatic difference. The high proportion of chronically weak plants in the Big 5 group has evidently been a severe drain on the resources and morale of these large companies. Very few independents are able to survive such chronic losses. Much of the so-called social burden of the fishery rests on the group of very unsuccessful plants which, over

Table 5.4
Characteristics of Plant Categories
(number of plants)

Characteristic	Tot. # Plants	Very Succ.	Mod Succ.	Sharp Decline	Very Unsucc.
1. Area					
Eastern Nfld. (1-2)	27	9	3	5	10
South Coast Nfld. (3)	10	0	2	3	5
Gulf (4-9)	26	9	8	4	5
Eastern N.S. (10-11)	9	0	4	4	1
West N.S.-Fundy (12-13)	21	5	8	6	2
Total	93	23	25	22	23
2. Product Mix					
Frozen Groundfish	40	3	12	11	14
Saltfish	11	7	2	1	1
Mixed Species	20	6	4	5	5
Herring	5	2	0	2	1
Other	17	5	7	3	2
Total	93	23	25	22	23
3. Sales Volume ('81)					
Under \$4 million	31	11	4	9	7
\$4 — 8 million	25	4	8	7	6
\$8 — 14 million	21	7	6	1	7
Over \$14 million	16	1	7	5	3
Total	93	23	25	22	23
4. Seasonality					
Year-round	31	4	15	7	5
6-12 months	40	14	88		10
Under 6 months	22	5	2	7	8
Total	93	23	25	22	23
5. Corporate Organization¹					
Big 5	51	0	20	13	18
Independents	42	23	5	9	5
Total	93	23	25	22	23
6. Groundfish Supply²					
Offshore	16	0	6	6	4
Inshore	24	3	6	5	10
Total	40	3	12	11	14
7. Quality Rating³					
Over 3	22	6	6	3	7
2 — 3	47	9	15	14	9
1 — 2	11	2	3	2	4
Under 1	3	1	0	0	2
Total	83	18	24	19	22

¹ The Big 5 are National Sea Products, Fishery Products, H.B. Nickerson & Sons, The Lake Group and Connors Bros.

² Includes only plants with more than 75% of 1981 production in frozen groundfish products.

³ Most Atlantic coast plants were subjectively ranked for overall quality performance (e.g., input material, final product, plant environment, attitude of management) by local inspection officers of DFO and graded on a qualitative scale of 0-4 (lowest to highest). Eighty-three of the Woods Gordon sample plants were covered in the assessment.

time, have drifted into the orbit of what was perceived to be the strong sector of the industry — that is, the large, integrated companies. This sector is no longer strong, if it ever was, and evidently cannot continue, unaided, to shoulder the burden of chronic losers.

Among frozen groundfish processors there appears to be little systematic difference between those that are trawler-fed as opposed to those that are inshore-fed. The off-shore plants include fewer of the chronically weak category.

The subjectivity of the quality ranking characteristic must be borne in mind when assessing the significance of the last item in Table 5.4. The 69 plants with quality rankings above 2 were split almost evenly between the successful and unsuccessful categories of plant. The lowest quality rankings are more predominant in the very unsuccessful group.

This small data sample indicates, at most, that although better quality will not guarantee success, extremely poor quality predisposes a plant to failure. Fisheries and Oceans inspection officers have observed that higher quality product is usually associated with apparently superior plant management. Thus the correlation between quality and financial performance may be due more to better management than to the present market benefits of quality per se. It is nevertheless expected that in the future, the quality of input raw material and final product will be increasingly important factors in financial success (see Chapters 6, 14 and 16).

Targets for a Profitable Processing Industry

The specific means by which the fish processing industry is to recover financial health are complex to describe. Many are treated in subsequent chapters. Much will depend on the individual decisions and ingenuity of entrepreneurs, managers, plant workers and fishermen. The prospects for success may be greater if there are achievable targets to aim for. These can be suggested by the Task Force only at the level of the industry as a whole. Individuals will have to set their own targets, mindful of the aggregate goal.

In our main Report we derive a set of quantitative financial performance targets for the industry based on what we believe are realistic objectives. The detailed derivation is technically complex, so here we summarize only the conclusions.

The goal was to define target values for a small number of key financial indicators; if these were achieved, they would imply a stable and profitable industry, capable of attracting sufficient private equity capital.

A grossly inadequate equity base has plagued the fishing industry for many years. The Task Force believes that, on average, shareholders' equity should be at least equal to the net value of fixed assets in the industry. In 1981, equity was only 10 per cent of fixed assets.

The financing of assets has depended far too much on debt. Financial risk in the industry is excessive. Accordingly, the Task Force suggests that the industry should aim for a ratio of long-term debt to shareholders' equity not to exceed 80 per cent. In 1981 this ratio was almost 9:1 (i.e., 900 per cent). But in 1978 it was only 120 per cent — still too high, but within range.

At an interest rate of 15 per cent (short-term) and assuming a target return on equity of 19 per cent, the industry would require an average gross margin of roughly 19 per cent (slightly higher for trawler plants and somewhat lower for inshore-fed plants). Lower interest rates (and reduced inflation) would mean that lower returns on equity and reduced gross margin targets would be acceptable. Significantly higher returns would be required in good years to offset inevitable down-turns.

The present financial structure of the industry is far from the proposed targets. But given the industry's performance in 1978, the target values should be attainable in time. To have met the targets in 1981, the plants in the Woods Gordon sample would collectively have had to reduce the average short-term bank loan balance by \$140 million and have attracted \$280 million in equity capital. The principal financial challenge to the processing industry is to bring shareholders' equity to adequate levels. This will require sustained profitability. If this is to be accomplished, there will have to be a dramatic departure from the "art" referred to in the quotation at the beginning of this chapter, and a more rigorous application of modern management skills.

6. Markets and Marketing

The demands of the consumer must continue to dictate the form in which fish are marketed. Consumption always regulates sales, and sales regulate not only production but the particular form of the product.

Report of the Royal Commission on the Maritime and Québec Fisheries, 1928.

The declaration of the 200-mile limit in 1977 served to heighten interest in selling Canadian fish products. Unfortunately, however, this was not accompanied by a recognition of the fundamental truth in the words of the 1928 Royal Commission just quoted. Their validity has not been adequately reflected in the actions of the majority of Atlantic fishermen, processors and government managers to this day. Despite the fact that the problem was identified at least 54 years ago, it is distressing to note that the conclusions of this Task Force are substantially similar to those of the Royal Commission and show that very little has been done to attack this basic problem of the Atlantic fishery. The traditional production or volume orientation of fishermen, processors and governments has been slow to change toward a market-driven approach. This failure of attitude and orientation is a significant contributor to the fishery's current problems.

Where We Stand

The fourth place nation in export value of seafood products in 1972, Canada became the world's number one exporter of seafood in 1979. Exports accounted for 80 per cent of Canada's fish production and in 1981 amounted to nearly \$1.6 billion. The United States took 52 per cent by value, the European countries 10 per cent, Japan 10 per cent, and other countries 8 per cent.

Atlantic groundfish exports totalled \$570 million in 1981, going mainly to the U.S. market. With the cod catch rising from 436,000 t in 1981 to an estimated 770,000 t in 1987, the use of cod to get better returns constitutes the industry's main marketing challenge.

Canada's Record in Marketing

Canadian exports of groundfish increased by 57 per cent between 1977 and 1981. In the U.S., our major market, Canada's share of imported fillets rose from 41 per cent in 1977 to a remarkable 60 per cent in 1981. Similarly Canada's share of U.S. imports of blocks rose from 21 to 34 per cent. At the same time, other national markets were becoming more important to Canada. Between 1977 and 1981 the share of Canada's total groundfish exports going to the European Economic Community increased from 1 to 6 per cent, and from 1 to 7 per cent for those going to Portugal and Spain.

A major marketing development between 1977 and 1981 has been the shift away from producing cod blocks (which are processed into fish sticks and the like). Instead, more cod has gone to saltfish and fillet production. The industry has responded to the consumer's wish for lighter, more natural products, mainly fillets in frozen or fresh form. (As well, the use of low-quality hake, whiting, Alaska pollock and the like swung consumer tastes away from block products.)

While statistics can be used to identify trends, it is helpful to understand the role of market 'niches' or market segments and Canada's relationship to them in order to assess the past performance of the Atlantic fish processing industry and to define future marketing strategies. A market niche or segment occurs when there is a group of buyers with an essentially common set of requirements in terms of product specifi-

cations, consistency and supplier services. Depending on their relative strength or weakness, different suppliers will have advantages in serving different niches profitably. The goal of each supplier is thus to dominate a niche in order to gain some market power and higher profits. The U.S. market has three broad segments:

1. *Public food service*, including white tablecloth restaurants, franchised restaurants, checkered tablecloth restaurants, and fast food outlets. This segment takes about 46 per cent of groundfish sold. This market demands high and consistent product quality. Often the products must be produced to customers' specifications. It requires large volumes and year-round supplies; it is more conscious of quality, availability and service than price. The public food service market is fussy about species, using mainly cod portions, cod fillets and flounder fillets.
2. *Captive food service*, including school lunch programs, plant cafeterias, hospitals, prisons and so on. This market accounts for about 18 per cent of groundfish sold. This mid- to low-quality market pays most attention to price and least to quality. It will accept substitute species. It uses mainly pollock, whiting, hake and cod as well as substantial amounts of other low-cost proteins such as poultry and hamburger.
3. *Retail* supermarkets and fish stores take roughly 36 per cent of groundfish sold. The retail buyers are oriented toward brand names and are sensitive to a wide range of quality and price; they also tend to prefer premium species such as cod and haddock for fish fillets. The main product form is fillets, except for pollock, which sells mainly in sticks.

The most successful marketers specialize in serving specific market segments. For example, Iceland has specialized in the part of the public food service market made up of franchised restaurants such as the Long John Silver chain and the expensive 'white tablecloth' restaurants. Chain restaurants are willing to pay a little extra for high quality (firm texture, free of bones, fresh taste, no off-odour) and high consistency if there is also year-round availability and guaranteed daily supply.

Canada's major place in the U.S. market ranges from the bottom half of the high quality market segment, through the price-sensitive, least quality-sensitive captive food service market, to the top half of the retail market. Our industry has specialized in the middle-quality, moderately price-sensitive, 'value for money' niche, where the orientation is toward lower cost and acceptable quality (see Figure 6.1). Profits to processors depend on achieving low production costs. Canadian processors suffered in recent years when beef, pork, and particularly chicken prices rose more slowly than fish prices. This led to increased consumption of chicken and less of other proteins.

Although Canadian processors would like to serve the higher priced and quality-sensitive markets, the lower average quality of fish landed at the dock and inadequate attention to quality in the processing plants holds them back. As a result, less than 20 per cent of Atlantic Canada's groundfish production is suitable for the most quality-conscious markets. U.S. buyers in the quality-conscious market segments complain about quality levels and consistency in Canadian products. The result is that franchised and white tablecloth restaurants in the United States purchase 75 per cent of their frozen fish from Iceland. Even if Canada were able to meet the quality and volume needs of these buyers, it would also be necessary to match the full range of services that Iceland offers before significant sales would be won. In the U.S. market, Iceland is solidly entrenched in its specialized niche. Any effort to win a significant share of their business will be combatted aggressively. As a result, profit potential is limited in this market segment.

Figure 6.1
Market Niches in The U.S. Frozen
Groundfish Market (schematic)



If the Canadian industry is to win a market share against other proteins, such as chicken, it will have to be price and quality competitive. In 1980, the average American consumed 105.8 kilograms of meat and fish. This was made up mainly of 72.4 kg of red meat (beef, pork, lamb) and 27.6 kg of poultry; only 1.8 kg (1.7 per cent of the total) was groundfish and 4 kg was other fish. A shift of as little as one-tenth of one per cent of total protein consumption per year for five years toward more Canadian groundfish and less red meat and poultry would result in adequate U.S. demand to absorb all of the forecast growth in Atlantic Canada's groundfish production. A shift of less than four-tenths of a percentage point per year would absorb all of the world's forecast growth in groundfish catches.

It is most unlikely that the U.S. market will in fact absorb all of the forecast increase in catch. Changes in consumption patterns are difficult to bring about. However, if the appeal of groundfish for U.S. consumers can be increased by even a small amount relative to poultry, beef and pork, then many of the industry's problems would be addressed. Over the five-year period, a one-pound per capita increase in consumption of Canadian groundfish in the U.S. would be sufficient to do this. Chicken suppliers achieved increases of this size in two successive years, 1978 and 1979. The gains were made largely at the expense of red meats. The goal of the Atlantic fishery must be to win a market share from these other meats. Better quality products, promotion and consumer education that emphasizes the health benefits of fish, new products, improved distribution and lower costs will be necessary to achieve this goal.

Marketing Organization

There has been considerable debate about whether the organization of the Canadian industry is too fragmented and hence too weak and undisciplined to market its products effectively. This is a complex issue involving economies of scale and the balance of power among three groups — Canadians, foreign competitors and buyers of products. Our findings with regard to the concentration of the Canadian industry are that, with some exceptions, the Canadian industry is neither excessively fragmented nor are firms unduly small by comparison with other Canadian food industries, our groundfish competitors, and the buyers of Canadian products.

Among other Canadian food industries only one, poultry processing, is more concentrated than fish processing. The marketing of Atlantic Canadian groundfish and herring is even more concentrated than the processing sector. This concentration has increased over the past decade. In 1978 the four largest firms, (National Sea Products, Fishery Products, H.B. Nickerson & Sons and The Lake Group) produced 63 per cent of all Atlantic Canadian groundfish and marketed 70 per cent. These firms marketed 90 per cent of frozen fillets and 85 per cent of blocks. The eight largest firms marketed 98 and 96 per cent of fillets and blocks respectively. Saltfish exporting is also highly concentrated, although somewhat less so than groundfish. Herring production is less concentrated, with the four largest processors accounting for half of the volume, the largest eight for about 60 per cent.

The marketing of fresh groundfish is an exception, in that it has been highly fragmented. This trade has been largely in the hands of a large number of small independent Nova Scotia processors and independent exporters. Despite being fragmented, the business has been one of the most lucrative fisheries; its participants have enjoyed high prices for their products.

Compared with our international competitors, Canadian firms are large. National Sea Products, with sales of \$314 million in 1981, is the largest seafood organization in the countries of the North Atlantic. With the merger of the marketing activities of National Sea and Nickerson, their combined sales are more than twice the size of

those of Norway's Frionor, the next biggest sales organization. Fishery Products and The Lake Group are not far down the list; they are fifth and seventh largest among comparable North Atlantic firms. However, the Canadian firms are small by comparison with the multi-billion dollar giant food companies with which they would have to compete if they attempted major direct retail marketing in the United States.

Although concentration among U.S. buyers of groundfish products has declined in recent years, the market is clearly segmented. Within key sectors, there is high buyer concentration in the manufacture and marketing of retail branded products and in the distribution networks. This may result in Canadian sellers facing a small number of powerful buyers and a high degree of competition in attempting to enter the U.S. retail product market. For saltfish the trend has also been toward a greater concentration of buyers, particularly in the less developed countries.

On the basis of this evidence, we have concluded that fragmentation is not, in general, a significant problem in the Atlantic fish-processing industry. However, there are some situations where the Canadian industry may have limited market power relative to the buyers they face.

Marketing Behaviour and Performance

The major issues are whether marketing strategies have been appropriate in the past and how they might have to be changed in the future. The problems to be addressed include final product quality and the extent to which diversification of sales into new geographic markets and new market segments is possible. The Task Force also examined the apparent destructive price competition among Canadian marketers.

The Task Force concluded that the market strategies and forms of price competition that exist in the Canadian industry are largely determined by the domestic constraints discussed in Chapters 14 and 15. These constraints result in high production of standard commodity products and relatively little production of top quality products. The market segments for dried saltfish and frozen commodity products are price-sensitive, and buyers often can substitute low-cost species (hake, Pacific pollock, whiting), for Canadian products. This segment also competes with cheaper proteins such as poultry. Lacking the flexibility to change its product mix radically, the industry has been forced to focus on cost-minimizing alternatives such as high volume, low-cost production.

With undifferentiated products, advertising by an individual firm is not a realistic alternative to price competition. However an industry-wide generic advertising program would provide a cost-effective way to expand Canada's market share against the substitutes and increase per capita consumption of groundfish in North America. Other industries such as fruit growers, grain and dairy producers have done this successfully. The dairy industry spends about 2.5 per cent of sales promoting cheese and butter. An equivalent groundfish program would cost between \$6 and 10 million per year.

Canadian processors have recently experienced a rapid growth in sales. But in virtually every case, the expanded sales were in the middle-quality, price-sensitive markets segments. The forecast 50 per cent growth in Atlantic Canada's catch of cod and flatfish over the next five years will require further substantial investments in marketing to expand the Canadian share of the segments and to open new markets.

The inability of the Canadian industry to produce a higher proportion of top quality products meant that most of the 40 per cent increase in Canadian production between 1977 and 1981 flowed into marketing segments, mostly in the middle range of price and quality, that were large but limited in number. Canadians now dominate

the supply in these markets (see Figure 6.1). But despite major increases in sales to these markets and the competitive struggle to displace the previous suppliers, a study of Canadian prices showed them to be more stable between 1977 and 1981 than in the previous four-year period. However, distress selling, a result of the poor financial condition of processors, was found to be the cause of unnecessarily low prices for some products from time to time. (Distress selling typically occurs when a processor has insufficient cash at hand to finance the holding of fish off the market until prices strengthen.) While the losses from distress selling have not been large (about \$1.5 million on flatfish sales of \$56 million in 1981), the frequency with which it occurs has been increasing recently. The solution lies in improving processors' profitability and increasing their financial viability. There are also a few situations where unnecessarily low prices were accepted because of inadequate information or insufficient expertise to determine the appropriate price.

Looking ahead, it is clear that the cost of producing Canadian fish products must be reduced, and the quality and range of products improved, in order to expand sales against poultry and beef. At the same time, a long-term program of generic promotion is needed. Greater concentration of marketing and selling efforts has some limited potential to reduce costs and perhaps improve marketing performance. However, the extent to which prices and profits can be increased will be significantly constrained by competition from suppliers of hake, Alaska pollock, whiting, Pacific cod and poultry. The Canadian focus must therefore be on providing better quality and service at present real prices in order to become more competitive and to attract more consumers to fish.

In the short run, orderly selling will be largely a matter of refining product mix — that is, determining what proportion of the raw material should be directed into each product form. However, buffer markets are required and should be developed to provide alternative outlets for lower quality products and unanticipated volumes during gluts. Several different geographic markets are needed to counter the instability inherent in the economies of individual consuming nations.

During the next five years, while Canadian landings of groundfish continue to expand, an unusually high degree of co-operation and co-ordination in marketing will be required among processors and the government to expand groundfish consumption in the market segments dominated by Canadians and to increase the number of U.S. market segments served and the number of geographic markets exploited. This co-ordination is required to reduce the likelihood of over-supplying particular market segments, thus lowering prices unnecessarily, and to ensure that new investments in marketing and promotion earn the best returns.

Improved marketing and sales information is needed at all levels, in the industry and in government, to help attune the industry to the needs and opportunities of the final market.

Supply and Demand Forecasts

Between 1981 and 1987 the world supply of groundfish is forecast to increase by 15 per cent — from 9.8 to 11.2 million t. Most of the growth will take place in the so-called 'inferior' species caught outside the North Atlantic — South American hake, Alaska pollock. North Atlantic species landings are forecast to increase by 5.8 per cent between 1981 and 1987, an absolute growth of 255,000 t. By 1987, an increase of 370,000 t, to a total catch of roughly one million tonnes is forecast for Canada, indicating that other North Atlantic suppliers collectively are expected to experience a net decline. Cod will account for about 90 per cent of Canada's supply growth.

At present rates of increase (assuming no changes such as improved quality, price or cost changes, or more effective marketing), the demand for Canadian groundfish in

all markets will increase by about 185,000 t (live weight equivalent) by 1987. Virtually all of this growth is forecast to be in premium fresh and frozen fillets. Saltfish and herring markets are not expected to grow.

This increase in demand falls short of the expected increase in supply by about 185,000 t. But as we have pointed out, a small shift in U.S. per capita consumption of Canadian groundfish would absorb all anticipated supply growth. Quality improvement and generic promotion thus become essential steps for closing the gap between demand and supply.

A 'medium' case scenario prepared by the Task Force — based on some improved promotion, a slight decline in average real unit prices of groundfish products and quality up-grading — estimated a new demand for Canadian groundfish of about 275,000 t by 1987. This forecast is below the anticipated supply growth, but not significantly so, given the possibility of error in any such forecast. Under the assumptions there would be slight, if any, shortfall in the demand for growing Canadian cod supplies. The excess supply would probably be in redfish and flounder. For groundfish overall, the picture looks fairly encouraging, *given proper action to take advantage of markets*. In the opinion of the Task Force, it is entirely feasible to market the forecast increases in Canadian groundfish products, at roughly constant real prices on average.

What will it take to do so? The same basic qualities that every business demands: cost efficiency, good quality products, skillful marketing, aggressive management, and a hospitable environment provided by government policy.

Good market growth would see Atlantic groundfish expand its share of the middle-quality markets against other proteins. The industry would increasingly compete in the premium trade, the lower-quality trade and non-traditional markets. The Canadian industry would increase fish consumption by advertising and promotion. Distress selling would become more rare. Better marketing and sales information would allow quick responses to market changes. Strengthened marketing would provide stronger direction to the rest of the industry, which will have to be better able to provide the right products, at the right price, all year round.

For the necessary market growth to take place, however, industry and government will have to achieve an unusually high degree of co-operation and co-ordination in marketing. Otherwise, the industry will mismatch supply and demand, over-supply particular markets, and lose potential revenue.

III Objectives and Key Issues

7. Objectives of Atlantic Fisheries Policy

It is essential that the Government of Canada establish an explicit, overall objective for the Canadian fisheries and that its Department of Fisheries and Oceans articulate that objective in terms sufficiently specific to allow both government and industry to plan and implement appropriate operational policies.

Fisheries Council of Canada, in a brief to the Task Force.

Introduction

In the preceding three chapters we described the environment in which fishermen and processors are operating and the market outlook for the Atlantic fishing industry. It is against this background that specific decisions must be made about appropriate public policies to deal with the problems facing the fishery. Chapters 9 through 21 present an analysis of what the Task Force has concluded are the thirteen major problems facing the Atlantic fishery and the recommendations by the Task Force for solving them.

But the selection of a recommendation can be made only after a decision on what the objectives of Atlantic fisheries policy ought to be. Without a clear statement of objectives or goals, there is no way to choose among several options for solving the same problem. The statement of objectives provides a compass to indicate whether the recommended option moves the industry in the 'right' direction.

Because a statement of objectives enunciates a direction for the industry, it involves subjective judgements and hence will inevitably be controversial. In fact, the more operational (and therefore the more definitive) a statement of objectives is, the more it will be vulnerable to attack, because the less it will be open to individual interpretations by participants in the industry.

It is to avoid such attacks that the objectives of public policies are often stated in broad general terms that can have many meanings and hence appeal to the widest possible range of citizens. This is also why most of the statements of objectives suggested to the Task Force by the fishermen's and processors' organizations and provincial governments with which we consulted were phrased in broad terms; otherwise, they would not have been acceptable to even the limited constituency represented by the membership of each organization. As an example, consider the following proposed statement of objectives for the fishing industry that appeared in a recent government paper: "To maximize the returns to the fishing industry and to Canada from Canada's fisheries resources". Statements such as this were of little help in guiding the Task Force in its selection of recommended options because they were so general that they could not be used in any remotely operational way.

It is also true that most areas of public policy, particularly those as complex as the Atlantic fishery, are characterized by multiple and conflicting objectives. A decision maker is therefore constantly forced to make trade-offs among desirable and competing objectives. To be useful, multiple objectives should therefore be ranked in order of priority. Again, this problem can be eased by having a general statement of objectives that successfully buries within it the kind of trade-offs that decision makers must make. But this merely hides the problem without solving it; it simply makes the trade-offs implicit rather than explicit.

The Task Force considered adopting a general statement of objectives that would mean all things to all people and thus garner a wide degree of support. We resisted this temptation in order to be consistent with our approach to this Report — an

approach whereby we are trying to be as specific as possible throughout. For similar reasons, we have ranked our objectives in clear order of priority.

Having said this, however, we realize that there are those who will criticize our statement of objectives for being too vague. For example, the three objectives presented in the next section are not as detailed as the eight objectives proposed to the Task Force in the brief from the Government of Newfoundland (although they are consistent with the Newfoundland objectives). Nevertheless, we believe that our objectives indicate clearly the direction in which the Task Force believes the industry ought to develop in the years ahead and that they strike an appropriate balance between vague generalities and excessive detail.

The Objectives

The three objectives of Atlantic fisheries policy are stated below *in order of priority*. Following that, we discuss what the objectives mean and do not mean and the nature of the trade-offs that must be made among them. It will be noted that the statement of objectives says nothing about the appropriate role of government or the private sector. This issue is addressed in the next section.

Objective 1: The Atlantic fishing industry should be economically viable on an ongoing basis, where to be viable implies an ability to survive downturns with only a normal business failure rate and without government assistance.

Objective 2: Employment in the Atlantic fishing industry should be maximized subject to the constraint that those employed receive a reasonable income as a result of fishery-related activities, including fishery-related income transfer payments.

Objective 3: Fish within the 200-mile Canadian zone should be harvested and processed by Canadians in firms owned by Canadians wherever this is consistent with Objectives 1 and 2 and with Canada's international treaty obligations.

Objective 1

The first objective reflects our belief that it is essential to develop an Atlantic fishing industry that does not require regular or periodic government subsidies in order to survive. Indeed, the Task Force was established because, in late 1981, it became clear that once again the industry would probably require a substantial infusion of public funds — as it had in 1968 and again in 1974-76 — if it was to avoid almost total collapse. The federal government wanted to break this cycle of periodic bail-outs.

Without an economically viable industry, without an industry that is able to stand on its own feet, the fishery will be doomed to exist in an environment of short-term decision making, ad hoc government and industry policies, and great uncertainty — all of which will make it impossible for the industry to be internationally competitive and to develop to the maximum advantage (including the employment advantage) of those who live in Atlantic Canada. Economic viability must therefore be the primary concern of government policy makers.

It is also important to understand, however, what Objective 1 does not mean. It does not mean that every processing firm or harvesting enterprise now in the industry should become permanently economically viable. There will be casualties, there will be bankruptcies, and these should be allowed to occur. They are a normal part of the Canadian economic system.

Nor does Objective 1 mean that the Task Force has accepted the objective proposed by some industry spokesmen, who said that the industry ought to be allowed to

develop according to the criterion of pure economic efficiency. Although they argued that maximizing economic efficiency maximizes the economic value of the industry to Canada, this approach ignores the enormous cost, in human terms, that would result from such a policy.

Objective 2

As is the case with many theoretically sound economic policies, the social consequences of adopting a pure economic efficiency approach to the fishery are unacceptable to the Task Force and, we believe, to most Canadians. This view is reflected in our second objective, which emphasizes the need for the fishery to employ as many people as possible, given that it is located in an economically disadvantaged region of Canada and that in large parts of that region the fishing industry is the only possible source of employment.

However, the constraint specified in Objective 2 means that the Task Force has explicitly rejected the rural-romantic school of social thought. This school argues that maximizing employment should be the primary objective of Atlantic fisheries policy, even if those employed receive incomes near the poverty line. Just as the Task Force believes that firms in the industry should not have to rely on government hand-outs on an ongoing basis, so we believe that fishermen and plant workers should earn incomes sufficient to ensure that they do not have to depend on social assistance payments or live on the edge of poverty.

Objective 2 also reflects the Task Force view that, as much as possible, the present distribution of population dependent on the fishery, particularly in Newfoundland, should be maintained. There will have to be some exceptions where plant consolidation is absolutely essential in order to achieve Objective 1, but these consolidations should be seen as extremely exceptional, rather than as part of a heartless economic rationalization plan.

Clearly, Objectives 1 and 2 will often conflict with each other. In fact, this conflict is reflected in the plea, which the Task Force heard repeatedly during its consultations, for us to decide whether there should be an economic or a social fishery. As we explained in Chapters 2 and 3, this is a false distinction, because fisheries policy must reflect both economic *and* social realities.

Nevertheless, by stating Objectives 1 and 2 in order of priority, we hope we have given decision makers guidance when it comes to making trade-offs between them. If, for example, a firm can show that closing a processing plant is essential for the firm to remain viable, then this closing should be allowed even though it will cost plant workers their jobs, at least in that community. On the other hand, if a firm proposes to close a plant to increase profits when the firm would remain reasonably profitable, and hence economically viable, even if the plant stayed open, then this closure should be discouraged. This view is supported by the processing industry itself. The Fisheries Council of Canada brief to the Task Force stated, "There is a social dimension to the industry which will continue to modify strategies which could otherwise be based exclusively on economics."

The Task Force believes that this social dimension must take precedence when the issue at stake is increased profitability, but not when the issue is the continued economic viability of a firm. We recognize that, in practice, it will be difficult to determine when a proposed corporate action meets the economic viability test as opposed to the profit maximizing test, and to that extent our objectives are not as operational as we (and many others) would have liked them to be.

For example, it may sometimes be possible for a new corporate entity, or new managers, to pick up all the elements of a failing operation and pull them together

on a profitable basis. Economic viability is in part dependent on who the current owners are, the price at which they purchased the assets involved and so on. Enabling new owners to purchase assets at a bargain price could enable a corporate entity to be formed that would be economically viable, even though the same assets were not viable under the previous owners. Such situations must be dealt with on a case by case basis, and no statement of objectives can cover all such eventualities.

Nevertheless, we hope that by stating clearly the order of priority we attach to Objectives 1 and 2, and by illustrating the kind of trade-offs we would make between them, governments will have a sense of what the Task Force would view as the right decision to make in various situations.

The order of priority given to Objectives 1 and 2 is of fundamental significance because, if adopted by the federal government, it would be almost universally regarded as a definite change in government policy. Until now, it has appeared to most people familiar with the Atlantic fishery that federal government decisions have been based on Objectives 1 and 2 being in the reverse order of priority or, at most, equal in priority.

Finally, we should point out that the Task Force sees nothing wrong with a government, federal or provincial, deciding to subsidize a processing firm in order to keep a plant open if that government decides that this must be done for social (employment) policy reasons. In this case, government funding would be used to ensure that Objectives 1 and 2 are both met.

What the Task Force is strongly opposed to is pressure applied to firms (for example, by hinting that trawler licences or processing plant licences will be withdrawn) to keep a plant open for employment reasons, when from the point of view of the firm's economic viability, the plant should be closed. This amounts to interchanging the priority of Objectives 1 and 2 and putting the cost of this interchange, essentially a social policy cost, on the shoulders of the firm's shareholders rather than on the government. The Task Force believes that this is wrong.

Objective 3

Objective 3 will have the support of almost all the participants in the Atlantic fishing industry. Fishermen, plant workers, company management, provincial governments and the Task Force all share the view that fish inside the 200-mile limit are a Canadian resource that ought to be exploited wherever feasible by Canadians. Canadians ought to harvest the resource, and it ought to be processed by Canadian plant workers in Canadian-owned companies.

Again, however, the priority attached to this objective relative to Objectives 1 and 2 is significant. As we saw in Chapter 5, the Canadian fishing industry is in desperate need of new equity capital if it is to become economically viable. There are only four possible sources of such funds: Canadian private investors, the federal government, provincial governments, or foreign investors. If sufficient new private Canadian investment in the fishing industry cannot be obtained, and if both levels of government do not contribute enough equity to the industry to make it viable, then the Task Force believes that foreign investment should be allowed, subject of course to the rules of the Foreign Investment Review Agency. (In this case, the FIRA 'significant benefit to Canada' test will require careful assessment in order to avoid the loss to Canada of value-added fish products through the export of minimally processed products to the overseas facilities of the foreign investors.) In other words, if a trade-off has to be made between Objectives 1 and 3, it should be made in favour of Objective 1.

Many participants in the fishery would oppose such a trade-off. To them we reply that we share their concern about foreign investment in the Atlantic fishery and

would favour Canadian investment, but if neither Canadian private investors nor governments will invest in the industry, foreign equity investment should be allowed.

The Role of Ideology

In the previous section we deliberately avoided using the catch-phrases and slogans relating to the roles of government and the private sector that were so often used by those with whom we consulted. We did this because it seems to us that the question of *who* does something must be distinguished from the question of *why* it is being done.

The Task Force view is that the question of whether a particular activity is conducted by the public sector or the private sector is less important than the question of whether the activity moves the fishery toward the achievement of the three objectives we have set out. We are far more concerned with the extent to which the industry will achieve our three objectives in the future than we are with the degree of government involvement in the industry. Nevertheless, the Task Force does believe that when roughly the same degree of progress can be made toward fulfilling our objectives by using either public or private sector means, then the private sector route is much preferred.

Some may object that this is not a sufficiently strong defence of what many industry members call the 'free enterprise system'. Frankly, the Task Force does not understand what this phrase means in the context of the Atlantic fishing industry. The fact is that in order to avoid returning to the tragedy of the commons situation, which everyone agrees resulted from unrestricted fishing in previous decades, government has to play a major role in the industry at least as the manager of the resource. In addition, the economic theory on which the free enterprise system rests includes the possibility of firms going out of business through bankruptcy. This feature of the theory seems to have been ignored by many of those who made the free enterprise argument to us. It also seems to have been ignored by those who have sought government assistance in recent months and years. We therefore discounted much of the free enterprise rhetoric as just that — rhetoric.

Fishermen's organizations also relied on somewhat exaggerated descriptions of the industry in their presentations to us. The brief from the Newfoundland Fishermen, Food and Allied Workers Union, for example, contained the following quotation from a 1930s book by Thomas Lodge, *Dictatorship in Newfoundland*:

The cod fishery . . . is almost unique as an industry in that it has somehow managed to throw . . . very nearly the whole risks which capital normally takes, and on which it bases its abstract claim for reward, on the shoulders of the working class.

The brief goes on to say, "While some of the outward characteristics of that system may have altered, the attitudes spawned and nurtured throughout the history of the cod fishery remain very much in place in the 1980s."

This view of the extreme imbalance of power between the inshore fishermen and the processing companies is not nearly as relevant today as it was in the 1930s. The power of fishermen's organizations, particularly the NFFAWU, in terms of their ability to influence the development of the fishery, to protect the rights and, particularly, to enhance the incomes of fishermen, is substantial. In fact, it is because the Task Force believes in the value of this new balance of power that elsewhere in the Report we recommend that provincial legislation be changed to allow all fishermen to unionize.

These examples of statements made to the Task Force by processors' and fishermen's organizations are inaccurate descriptions of the current situation, but they are symptomatic of the fact that all participants in fisheries debates use exaggeration and slo-

gans that obscure issues and discourage rational debate of fundamental problems. Government officials, for example, frequently warned us of the dangers of too much government 'intervention'. Aside from the irony of officials in departments of development (which presumably exist so that government can help industry and become involved, at least indirectly, in the marketplace) being opposed to intervention, it became clear as discussions proceeded that intervention was in some cases a synonym for permanent subsidies and in others a synonym for government equity participation or complete ownership.

As Objective 1 makes clear, the Task Force is opposed to government becoming involved in perpetual subsidy programs. If that is what intervention means, then we are opposed to it.

On the other hand, we find it impossible to oppose, purely on principle, government equity participation in the processing sector. Indeed, we have stated that Canadian equity is preferable to foreign equity. Therefore if intervention means government equity participation, then we are not opposed to it.

These observations have not been made merely to point up the inconsistency of arguments made to us or the speciousness of catch-phases and slogans, but rather to underscore a fundamental point: *The Atlantic fishing industry is in very serious trouble; it must be put in a position where it can once again become economically viable. To do this will require pragmatic rather than ideological decisions about a series of extremely tough problems.*

To the extent that those involved in the fishery reject certain options simply because they conflict with personal ideology — even though in most cases they have nothing better to propose than government assistance with no strings attached — the plight of the industry will be that much more difficult to remedy, and tough problems may become insoluble. Hence our plea for a pragmatic response, rather than an ideological response, to the issues and recommendations in the chapters that follow.

8. Issues and Recommendations: An Overview

When fish are counted, it's people that count. Any . . . plan in the fisheries has really one basic criterion of judgement: does it improve life?

*Hon. Roméo LeBlanc, in a speech to the
Atlantic Provinces Economic Council,
October 22, 1974.*

Introduction

The Task Force approached its work in very much the spirit captured by the words of the former Minister of Fisheries quoted above. We believe that the fundamental reason the Task Force was established was because of the concern of the federal government for the *people* of Atlantic Canada — the people who live in hundreds of communities scattered along the coastline of the Atlantic Ocean, the Bay of Fundy and the Gulf of St. Lawrence.

It was because of this concern for people that the Task Force travelled extensively throughout the region, not just to the urban centres, but to dozens of small communities as well, to listen to what people had to say about the problems of the fishery and their possible solutions. It was also because of this concern that deliberations on our recommendations usually came back to one issue: the need to preserve jobs with adequate incomes so that people in the fishery could continue to enjoy the unique lifestyle of rural Atlantic Canada.

Although this goal was uppermost in our minds, we also had to take into account that, in an era of restraint on government expenditures, our recommendations had to point the way toward an industry that would not require large amounts of ongoing government assistance. This was a constraint on our possible recommendations.

From this starting point, we were able to develop the following structure, or policy framework, for our recommendations.

Rationale for the Recommendations

In Chapter 7 we presented our objectives for the fishery. To recap our argument:

- If preserving jobs in rural communities is of fundamental importance, but permanent public subsidies are not available to preserve every job in every community that is now dependent on the fishery, then an economically viable industry in both the harvesting and processing sectors must be the first priority objective; otherwise, employment in the fishery will be forever insecure and unstable.
- But economic viability must not be taken to mean maximum economic efficiency regardless of the social (employment) cost; hence our second objective should be to maximize the number of jobs in the fishery as long as the income received from these jobs can be considered reasonable.
- Finally, it was clear to us that employment would be maximized only if the industry was controlled, to the greatest degree practical, by Canadians. Fish are the perfect example of a resource that could be exported with little or no value added, but this would cost jobs in the processing sector. In fact, in the extreme case, fish could even be caught by foreign vessels, using foreign crews, thus eliminating jobs in the harvesting sector as well. These considerations led to our third objective — the 'Canadianization' objective — and our strong stand on international issues, including over-the-side and over-the-wharf sales, contained in the recommendations in Chapter 9.

With this set of objectives providing a framework for our recommendations, we turned our attention to how to achieve them. Our thinking went as follows:

Processors

- If the industry is to be economically viable, it must be able to market its product at profitable prices; hence we started our analysis at the marketplace and worked backward toward the harvesting sector.
- Our study of the marketplace (Chapter 6) concluded that the projected growth in fish landings, particularly northern cod, could be marketed successfully provided that there was greater co-ordination of corporate marketing strategies and increased marketing efforts through, for example, generic promotion and the development of new markets. Hence the recommendations in Chapter 17.
- But as shown in Chapter 5, improved marketing efforts, by themselves, are clearly not sufficient to ensure economic viability. Much more must be done at both the processing and harvesting stages. In particular, the quality of the fish landed and the quality of product leaving the plant must be substantially improved so as to support and complement marketing initiatives. This consideration led us to the recommendations in Chapter 14.
- As the data in Chapter 5 make clear, improved quality and marketing are still not sufficient to make many plants (or companies) viable. The market prices of most groundfish and herring products are not expected to increase, in real terms, in the near future. Plant viability will therefore depend on greatly improved cost efficiency which, in turn, will require better management, higher quality raw material and less variability in the supply of fish. In short, plants will have to reduce their operating costs in a variety of ways, including those described in Chapter 16.
- The only way that some plants have any hope of becoming economically viable is by lengthening their operating season. This is particularly important for plants in northeast and eastern Newfoundland, where fish delivery is mostly seasonal. Delivery of fish to seasonal plants during the winter would (1) enable fixed overhead costs to be distributed across a larger quantity of fish; (2) increase the employment period for plant workers, thereby helping to increase their incomes; and (3) allow a more orderly (less seasonal) flow of products to the market. The recommendations on resource-short plants in Chapter 11 are aimed at achieving these goals.
- An appropriate allocation of the growth in the northern cod stock off Newfoundland (the largest and most rapidly increasing fish stock) is needed to spread the catch more evenly over the year and to make the recommendations in Chapter 11 feasible. It is also needed to support more productive harvesting techniques. Hence the recommendations in Chapter 12.

Fishermen

But fishermen, as well as processing plants, are in serious financial difficulty, as the data in Chapter 4 make all too clear. Fishermen also need to reduce their costs and increase the value of their catches in order to increase their net incomes. This led us to several conclusions:

- Fishermen's costs can be reduced significantly only if the regulations that constrain technological efficiency are relaxed. But this will be pointless, indeed counterproductive, if removing constraints leads to another bout of fleet expansion. Fishermen must have an incentive to catch the allowable quotas at the least cost.
- Fish are common property, and a fisherman is now virtually forced into a race for the largest share of a quota before it is taken by his neighbours. Regulations have been progressively increased to control fishing capacity, but they have not been particularly successful in overcoming the costly effects of this race and they have stunted improved technological efficiency. Some type of 'quasi-property right', in

the form of a 'quota licence' or 'boat quota', is required to give each fisherman an assured share of the quota or define more precisely his rights to fishing capacity. Within limits, these rights could be traded or sold.

- A quasi-judicial authority would be needed to oversee and to ensure the fairness (real and perceived) of both the transfer of rights and the licensing system in general.

These first three conclusions form the basis of the recommendations in Chapter 10.

- Fishermen's costs can also be reduced by ensuring that they have access to adequate amounts of capital, on reasonable terms and conditions, for vessel replacement. As this has been the traditional responsibility of provincial loan boards, in Chapter 19 we urge them to review their current practices in light of fishermen's needs for access to capital.
- In many areas where the inshore fishery is held to a short season by weather and the migration of stocks, there is a continuing need for supplements to fishing incomes. In the short term, some modest changes to improve fishermen's unemployment insurance are needed as a transition measure until a better program for income stabilization and supplementation can be put into effect. Fishermen's unemployment insurance would then be replaced by a program that would combine income supplementation with a production bonus scheme to encourage desirable goals in the fishery — for example, better quality of landed fish, off-peak fishing — as recommended in Chapter 18.
- Fishermen's incomes may also be increased in other ways, depending on the results of the port market studies called for in Chapter 15. If the port market functions properly, fishermen will receive a fair share of the final marketed value of fish products. Thus the benefits of better economic performance by the fishery as a whole will be shared by fishermen as well as by those in the processing sector.

All these changes are designed to make fishermen and processing plants economically viable, provided they start on a sound footing. Unfortunately, as shown in Chapter 5, most of the trawler-based processing sector is now exceptionally weak financially. Without refinancing, some of these firms will not survive to benefit from the structural changes in the industry that are recommended by the Task Force.

To retain the potentially viable elements of these firms, and to avoid an unacceptable disruption of dependent communities, a significant infusion of new funds, probably in the form of equity, will be required. Because these funds should not be employed to bail out existing shareholders, and because sufficient new investment might not be attracted from private sources at this time, the federal government may well have to provide a significant portion of the new equity.

At the time this Report was finalized, the exact manner in which new government funds will be used to assist the viable elements of existing firms was under active negotiation between the Task Force, the federal and provincial governments, the banks and the owners of the companies involved. The Report does not therefore contain specific recommendations with regard to the precise form that the restructuring of these companies should take. It is hoped, however, that the negotiations will have advanced sufficiently for the main results to be announced when the Report is released to the public.

But with the exception of the financial assistance required to restructure the viable parts of the existing offshore companies that are in trouble, the Task Force believes that if its recommendations are adopted, our first objective — the economic viability

of the industry — can be met without ongoing government assistance. This is the rationale for our recommendations in Chapter 19.

The Task Force also dealt with two problems that, although they are very important, fall outside the major focus of the Report. The first is the problem of chronic low incomes for fishermen in northern areas — roughly, north of 50° latitude — which, the Task Force believes, requires the particular attention of government. Development of the fisheries resource for the maximum benefit of local residents may require that government assume ownership of some processing plants in the area — for example, at St. Anthony in northern Newfoundland. Hence the recommendations in Chapter 13.

The second is the problem faced by the herring fishermen in the Gulf of St. Lawrence and the Bay of Fundy. Our recommendations on how to deal with this problem are presented in Chapter 20. They reflect the approach the Task Force has taken to broader harvesting issues (Chapter 10) and the limited availability of government funds to finance licence buy-back at this time.

Making it Work

Finally, it must be emphasized that the effectiveness and impact of the recommendations in this Report depend on the willingness of fishermen, plant workers, processors and, not the least, federal and provincial governments to accept change. It depends on their willingness to do many things differently than they have been done in the past. It depends also on their willingness to change their attitudes to others in the fishery.

If the we/they mentality that dominates the attitude of all major groups in the fishery is maintained, if everyone continues to blame everyone else for the fishery's problems and fails to accept some of the blame themselves, if the view prevails that any assistance to processors must be matched by assistance to fishermen and vice versa, if the degree of mistrust that so permeates the industry persists, then the problems will never be solved. The recommendations in Chapter 21 are designed to be the first small steps in the direction of helping to reduce the animosity and mistrust that run throughout the industry.

But they are just that — small steps. The rest is up to the people in the fishery — the people who have been the major concern of the Task Force. If they decide that this time they will accept change, that they will set aside old differences and work together, then this industry can be made viable once more. If, as has happened so often in the past, the people employed in the fishery decide to resist change, then the boom and bust cycles that have so often occurred are doomed to be repeated.

The Atlantic fishing industry will pull through its current crisis only if everyone in the fishery pulls together. *Pulling through, together* must become the motto of the fishery in the months and years ahead.

IV Issues and Recommendations

9. International Issues

The development of the Canadian resource for and by Canadians should be a paramount principle of fisheries policy.

*Fisheries Association of
Newfoundland and Labrador Ltd., in a
brief to the Task Force.*

The Problem

As a consequence of extended jurisdiction by coastal states, a number of 'distant water' fishing nations have been left with fleets of expensive, under-utilized vessels. These vessels, with few other fishing opportunities, create continuing conservation and allocation problems in stocks overlapping the Canadian 200-mile zone or outside it.

Proposals have been made to use these vessels within the Canadian zone in ways that are attractive in the short term to various industry sectors but of questionable value in the longer run in light of the Task Force objectives. To the extent that these proposals are not accommodated, leverage of various kinds may be applied in an attempt to force Canadian authorities to accede to more favourable treatment of foreign vessels. The pressure has included, for example, over-fishing outside 200 miles and trade barriers to Canadian fish products.

The policy issues involve the rules that should govern international allocations of stocks within the 200-mile zone, foreign investment in the Atlantic fishery and over-the-side or over-the-wharf sales.

Recommendations

1. Allocate non-surplus resources to foreigners as part of agreements for reciprocal fishing rights by fishing vessels across international boundaries (e.g., with Greenland in the Davis Strait).
2. Allocate resources that are currently surplus to Canadian harvesting capacity (e.g., squid) and a fixed amount of 'non-surplus' resources (e.g., cod) preferentially to those countries that maintain a satisfactory fisheries relationship with Canada (including fisheries trade and conservation). Allocations of non-surplus resources should be made after the fact — that is, in a subsequent year as a reward for satisfactory behaviour in the previous year, rather than as an incentive. In particular, the government should not negotiate access by foreign vessels to non-surplus resources in return for access to markets.
3. Pursue, on a priority basis, reductions in tariff and non-tariff barriers affecting trade in Canadian fishery products through multilateral negotiations within the framework of the General Agreement on Tariffs and Trade.
4. Permit joint venture arrangements with foreign interests where necessary — that is, in the absence of Canadian solutions to financial equity, marketing and resource supply problems — and subject to Foreign Investment Review Agency conditions appropriate to the nature of the fishing industry. For example, the FIRA assessment will require particular care to avoid the loss to Canada of value-added fish products through the export of minimally processed products to the overseas facilities of the foreign investor.
5. Permit direct sales to foreign fishing vessels 'over-the-side' (that is, by fishermen selling their catch) and 'over-the-wharf' (that is, by processors selling minimally processed product) only in predetermined and well-defined circumstances. Direct over-the-side sales should be permitted only where insufficient Canadian processing capacity exists, or where there is no Canadian buyer for the quantity

available at the negotiated price or at the domestic price generally recognized by fishermen and processors. Direct over-the-wharf sales should be permitted only where sufficient value has been added to the product by Canadians. This will require definition of specific allowable product forms.

Comment

Allocation of resources

On international issues, the Canadian fishery is faced with an unusual set of circumstances and a conundrum in two parts: (1) Despite the best efforts on international stock management by NAFO, the activities of states that are not members of NAFO have resulted in cod stocks beyond 200 miles not being rebuilt. This has led to pressure from foreign governments to be allowed to fish, particularly for cod, within the Canadian zone. (2) Restrictive measures taken by Canada inside 200 miles to improve Canadian catch rates results in charges that there is a 'surplus' that is not being allocated as required under the Law of the Sea. If it were allocated, it would make the results of the first problem even worse, because it removes the incentive to rebuild stocks in the international area and, at the same time, makes available to our competitors raw material to compete with Canadian products on world markets.

There is only one way to avoid the downward spiral that would be inevitable if pressures to allocate stocks to foreign fleets are not resisted. That is to pursue the 'Canadianization' of fishing within the zone and, at the same time, to pursue market development and expansion by conventional means rather than by way of allocations in return for market access. This is why we made Canadianization our third objective for fisheries policy and why we recommend an after-the-fact approach to foreign allocations rather than offering allocations before the fact in the hope that adequate marketing benefits might ensue.

The Law of the Sea Convention, in our view, does not require the allocation of resources to other countries in situations where to do so would have an adverse economic effect on the Canadian fishing industry. Indeed, it would be nonsense if international accords required nations to allocate to potential buyers fish that the buyers would then not have to purchase because they could catch it themselves.

Article 62 of the Law of the Sea Convention expressly provides that in giving other states access to its exclusive economic zone, the coastal state shall take into account all relevant factors, including the significance of the living resources of the area to the economy of the coastal state concerned. Article 61 provides that the coastal state may take the economic needs of coastal communities into account in determining appropriate conservation measures for the resources of the 200-mile zone.

We are therefore unable to support the view that because the fish is there it must be caught — if not by Canadians then by vessels from other countries. If we do not have a market for the species and it is genuinely surplus to our fishing economy, it should be allocated to other nations. Otherwise it should be stored in the cheapest manner possible, in the sea, until it can be profitably utilized.

On the issue of allocations of non-surplus resources in return for access to markets, our view that this practice should not be followed has widespread support within the industry. The allocation of non-surplus fish is expensive as well as unwise from a marketing point of view. One thousand tonnes of live cod yields about 20 person-years of direct employment in catching (by trawler) and processing. More labour is required for inshore harvesting. The marketed value of each 1000 tonnes of live cod is about \$1 million.

Expanded market access for Canadian groundfish products is important. The strategy of several European fishing nations appears to be to limit or deny that market access to force Canada to concede quotas inside the 200-mile zone. Once foreign fleets are re-admitted on a significant scale it would be more difficult than it is today

to force them out again. The foreign fleets will last at least another ten years if a way can be found to keep them viable, after which there would undoubtedly be pressure for continued, or even increased, allocations to support the replacement of vessels. We recognize the short-term advantages that might occur if Canada adopted an allocations for access policy. But we believe that these advantages would be strictly short-term. We also have some suspicion that various fleets are seeking to enter into arrangements—be they joint ventures or over-the-side sales—at a loss in order to get a foot in the door, knowing that if sufficient dependency can be created, Canada will not be able to do without them.

Moreover, purchase guarantees by foreign countries in return for allocations are of no use if the price is inadequate. Governments in market economies cannot dictate prices to be paid by their private sector buyers. They can at best provide tariff concessions and can discriminate in favour of Canada in the use of non-tariff access controls. But such arrangements are entirely undependable in the long run and, in addition, they undermine the free trade principles of GATT.

Market access is inherently more uncertain and more subject to manipulation than catching the allocation of Canadian fish. Hence allocations for access is a one-sided bargain. That is why we have suggested that access to non-surplus allocations be strictly limited in total, be allocated unilaterally on the basis of 'good performance' and be offered to selected nations after the fact rather than in return for a promise of access to markets.

This leaves open the possibility of continuing to seek benefits, including greater access to markets, in return for allocations of surplus resources. This should normally involve allocations from a surplus stock in exchange for sales of product from a species different from that being allocated — so that the foreign allocation does not end up competing with a Canadian product.

The problems posed by foreign fleets were clear in the early 1970s. The world as a whole had too much distant water fishing capacity. Extensions of jurisdiction meant that this capacity had to be reduced or used in different areas and ways. Some countries (for example, the U.K.) have reduced their fleets; others have not.

Many developing countries have taken advantage of the fishing capacity and technology available from distant water fishing states to enter into various forms of joint ventures to develop fisheries that they would not otherwise have pursued. This resulted in some changes in world trading patterns as new and substitute products entered world markets (e.g., South American hake substituting for cod). The same incentives available to developing countries (capital investment, assimilation of fleets, etc.) have also been available to Canada, but until now they have been rejected in an effort to pursue a strong Canadianization policy.

Foreign investment

Since early 1973 the government has followed a policy whereby the minister of the day has used the discretionary authority in the Fisheries Act to refuse to issue new licences to foreign-owned vessels or to vessels owned by companies that had any foreign shareholders. This policy was adopted in order to prevent foreign interests obtaining by the foreign investment route what has been denied them since fisheries jurisdiction was extended to 200 miles.

The question of whether foreign investment in the Canadian fishery, particularly in vessels, is now to be permitted, beyond the small amount already existing, is crucial to the future shape of the industry. In the absence of Canadian private or public equity investment, foreign capital will be required to salvage a large portion of the offshore processing sector and, possibly, to replace the fleet.

Foreign interests with processing facilities in other countries will be interested in investing in the Canadian fishery for two reasons. First, foreign investors will wish to obtain secure supplies of semi-processed material for production of consumer packs in their own secondary processing facilities. Thus, for example, the Japanese will want whole, frozen-at-sea squid and redfish; the West Germans will look for high quality cod blocks (preferably processed at sea in existing factory vessels), and the Portuguese and Spanish will take wet salted cod for drying at home and perhaps re-export. Second, investment in the Canadian fishery would help them to make more efficient use of their vessels, which are currently under-utilized. In both cases, therefore, foreign investment could lead to a loss of employment in Canada.

What is clear, however, is that new equity is required, and that some up-grading of the fleet, to include more freezing at sea, will be necessary to supply certain products. It is also clear that foreign equity and equipment are available if Canada wishes to pursue this route instead of full Canadianization.

Some will argue that the security of market access that would likely result from foreign investment and the benefits of a new infusion of equity into the offshore sector are worth the loss of value-added product and employment in Canada. But the Task Force believes that this should be permitted only after a careful evaluation of the costs and benefits of the new foreign investment.

Therefore, in light of our first objective for fisheries policy, we suggest that if this objective cannot be fully achieved without foreign investment, FIRA criteria be developed for the kind of foreign investment that would be permitted in the Atlantic fishery. This implies that in cases where FIRA criteria are met, the minister would grant the required licences despite the policy that has been followed since 1973. We recommend strongly that FIRA criteria include assurances of maximum Canadian value-added and not permit the use of foreign-crewed vessels, as this is inconsistent with our employment-related second objective. We are, moreover, attracted to the view that Canadian industry should be encouraged to 'integrate forward' by taking equity in processing, distribution and marketing operations in other countries. If this happens, it may of course be necessary for Canada to reciprocate with policies that permit foreign investment here under appropriate conditions.

In considering the pros and cons of foreign investment and the criteria that might be established for it, it must be realized that preferred access to foreign markets may be opened to companies that happen to attract foreign investors; this may be seen as unfair by companies that are wholly Canadian-owned. On the other hand, easing the blanket prohibition on foreign investment in the fishery may be a valuable lever in negotiating the reduction or elimination of trade barriers for at least some companies. On balance, the Task Force is not concerned about the appearance of unfairness in this case because foreign investment would be permitted only if it is necessary to achieve our first objective, economic viability.

Direct sales

With regard to direct sales to foreign fishing vessels by fishermen (over-the-side) or processors (over-the-wharf), the Task Force was struck by the bitterness and animosity between fishermen and processors that this issue engenders. This conflict is not only counter-productive, but fails to recognize the mutual interdependence of the two sectors. (The reason for government involvement is that the foreign vessels participating in direct sales require a licence. They have also been known to press for and receive special allocations within the 200-mile zone as part of the deal.)

Fishermen argue that they should have the right to sell their catch to whoever offers the highest price — even if it is a foreign buyer, who will take the frozen raw material home to be processed, where it will then compete with Canadian products.

Processors, while complaining about the lost income and throughput to their plants as a result of over-the-side sales, take the same position as fishermen if they can find a foreign vessel to purchase minimally processed fish over-the-wharf — “it’s what the market wants,” they say. Both sides ignore the employment benefits of processing value-added products in Canada and concentrate instead on the immediate direct benefits the seller, be he fisherman or processor, can gain.

It has been argued that the over-the-side sales issue has been blown out of all proportion, given that they make up only about 2 per cent of the catch. But these sales have in fact been of considerable significance in those fisheries (e.g., herring, mackerel) and areas where they have taken place, often at the expense of jobs and revenue in plants where capacity exists to handle the catch. Once these direct sales are authorized in one area, it is very difficult not to allow them elsewhere, with the result that the processing sector loses further jobs and income, while fishermen’s dependence on these sales increases.

Seen in this light, the recent rapid increase in over-the-side sales seems to us to be a most unhealthy trend. If prices to fishermen are inadequate in the Canadian market, then the alternative of the Fisheries Prices Support Board being funded to allow it to make ‘deficiency payments’ would be preferable to continuing to allow over-the-side sales.

Our recommendation on direct sales recognizes that there are circumstances where they should be allowed to take place, but the rules of the game should be clearly spelled out in advance and strictly adhered to. In particular, over-the-side sales should not be used to exert price leverage in domestic port markets as they have been with, for example, Bay of Fundy herring. Neither should over-the-wharf sales of essentially unprocessed fish be allowed as they have been at some plants in Nova Scotia.

Finally, we believe that direct over-the-side and over-the-wharf sales should be allowed only after their market implications have been very carefully examined. For this reason we recommend that direct sales proposals be examined by the Atlantic Fisheries Marketing Commission proposed in Chapter 17.

10. The Harvesting Sector

The tragedy of the commons develops in this way. Picture a pasture open to all. It is to be expected that each herdsman will try to keep as many cattle as possible on the commons. . . The rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd. And another; and another . . . But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit — in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all.

Garret Hardin,
"The Tragedy of the Commons",
Science magazine, 1968.

The Problem

In some areas there is too much harvesting capacity, relative to current and anticipated resource availability, to generate adequate annual incomes and adequate returns on investment for fishermen. Present licensing and vessel replacement rules designed to control the tendency toward excess harvesting capacity are seen to be artificial and arbitrary and are often not successful. These regulations also inhibit the use of improved harvesting technology.

The policy issue is to find new ways to deal with the 'common property' problem in the fishery. This problem underlies most of the difficulties in the harvesting sector and is compounded by the split federal/provincial administration of fisheries in Québec.

Recommendations

6. Continue and improve the process begun in 1981 by the Department of Fisheries and Oceans to identify fishermen as full-time or part-time for the purpose of tailoring policies and programs for each group.
7. Adopt the following licensing principles: (a) The licence would pertain to the individual as a quasi-property right (the licence would be on the man, not the boat). (b) The licence would specify either a limitation on the catch (sometimes called an 'enterprise allocation' or a 'quota licence') or on the catching capacity of the fisherman's vessel and gear (sometimes called an 'effort-related' licence, as now exists in, for example, the lobster fishery). (c) The licence would be divisible and transferable (that is, it could be sold or traded) subject to certain conditions; the transfer process would be supervised by a quasi-judicial board.
8. Establish a quasi-judicial Atlantic Fisheries Licence Review Board that would act in a review and appeal capacity for the current licensing system, as well as for the system of enterprise allocations and quota licences.
9. Consolidate federal management of the fisheries in the Gulf of St. Lawrence by resumption of full federal responsibility for licensing and other aspects of marine fisheries management in Québec.

Comment

With regard to recommendation 6, analysis by the Task Force (presented in Chapter 4) confirmed that there are significant differences, in income and amount of time worked in the fishery, between full-time and part-time fishermen. It is also clear, however, that access to the fishery is important for a substantial proportion of part-timers. The part-time category recognizes the traditional attachment to the fishery of many people on the the Atlantic coast, even though they may not now be able or prepared to make fishing their main occupation. On the other hand, those who

choose to remain part-time fishermen must be prepared to grant priority to full-time fisherman. For these reasons the Task Force considers it desirable to maintain and refine the full-time and part-time categories.

Given the difference in dependence on the fishery by part-timers and full-timers, we believe that there is a legitimate basis for differentiating between the groups in fisheries policy and programs, including possible financial assistance programs (see Chapter 18). This could include, for example, restriction of certain 'high value' licences (lobster, crab, shrimp, salmon) to full-time fishermen, or limitations on the size of vessel and amount and kind of gear that part-timers could use. It could also include restricting the proposed income stabilization program to full-time fishermen. There must, of course, be a well-defined process for entry to each category and transfer between categories.

It is clear that policies directed toward full-time fishermen must take account of their effect on fishermen's incomes. In some areas, there is a close relationship between numbers of fishermen and annual income. In other areas there may be little or no connection. For example, on the coast of Labrador, reducing the number of fishermen would do little if anything to improve the incomes of those remaining, as there is no problem of over-capacity in the inshore fishery, and indeed the inshore fishery in that area is not limited by quota. On the other hand, certain fisheries, such as the fishery by small trawlers (under 65 feet) on the west coast of Newfoundland, are over-crowded, and a reduction in numbers would enable the remainder to generate higher incomes, as the limited quota in that fishery would be shared among fewer vessels.

Licensing principles

The Task Force attached great importance to the need to come to grips with the problems caused by the 'common property' nature of the fishery. We believe that the resolution of these problems will be of enormous benefit to fishermen. Unfortunately, many of the issues surrounding the common property problem and its resolution are still not clearly understood, and the potential for dealing with them is not widely appreciated. We therefore believe it is important to review briefly the common property issue and to answer some of the questions frequently asked about the 'property rights' idea.

Fish is common property, like an open pasture for grazing cattle where there are no individual property owners, or a forest in which no individual or company owns exclusive timber cutting rights, or an ore body in which no one has sole mining rights. Within a total quota, defined by biologists to protect the resource, fishermen race against one another, each trying to maximize his share of the fixed quota of the common property resource before others exhaust it.

To get a bigger share, a fisherman is naturally motivated to get a bigger, faster (and more expensive) boat. There is nothing irrational in this. Every fisherman is thinking the same way — trying to catch as much as he can, as fast as he can, before the quota is used up by others. But the result is more and more fishing capacity trying to catch the same amount of fish. Costs go up; therefore fishermen's incomes go down.

Government has tried to control this race by (1) limiting the number who can enter each fishery, but this produces controversy over who should get a licence; and (2) regulating the size and number of fishing boats to keep the race 'fair' and to cut down on over-investment. This stifles improved technical efficiency, because a fisherman cannot change the size of his boat or take automatic advantage of improvements in gear because they are not permitted by the regulations.

Government measures have not been very effective in limiting over-investment or curbing the race to catch the maximum amount as quickly as possible. Fishermen

have been ingenious in getting around the rules because the common property nature of the fishery motivates them to do so. The government has been able to respond only with more regulation.

These problems and the resulting snarl of regulations and licensing rules all stem from the common property nature of the fishery. The Task Force believes that they can be solved only by giving each fisherman some form of property right to a certain amount of fish, similar to timber rights or mining rights on Crown land. Ideally, the property right should give each fisherman an individual quota of fish that he would be allowed to catch. Peter Pearse, in his report on the Pacific fisheries, has called this a "quota licence". Within limits, a fisherman's quota could be traded or sold in whole or in part. The sum of the individual quotas would add up to the Total Allowable Catch (TAC) of the fish stock in question.

Once a fisherman has a quota licence, there is no need to race to maximize his share of a common TAC. His incentive changes from racing to catch as much as possible as quickly as possible to catching his 'personal' quota at the least cost.

For technical and administrative reasons it may not always be feasible to assign a quota to each fisherman. This is likely to be particularly true for smaller boats. For inshore vessels, say under 35 feet, it is unlikely that individual quota licences would be practical. Given the present system of monitoring landings, it would be impossible to keep accurate track of the individual catches of the more than 8000 craft under 35 feet. Even if that were possible, the relatively large year-to-year variations in catch per vessel in many inshore fisheries would make a system of individual boat quotas impractical, unless means were devised to permit the easy transfer of quota between fishermen as the season progressed and as the luck of individual fishermen waxed and waned.

For vessels between approximately 35 and 65 feet, it may prove practical in some fisheries to institute individual quotas by using quota licences. This should be most feasible for the otter trawlers in the 60 to 65 foot range, the landings of which are almost as easy to monitor as those of offshore trawlers.

An alternative that might be practical in some fleet sectors where boat quotas would be difficult to implement and enforce would be to define the 'quota licence' as an entitlement to a certain amount of catching capacity or capability, rather than as a quota of fish. This approach is used now in the case of limits on the number of lobster or crab traps that can be fished by a licence holder in these fisheries. The offshore scallop fleet is also managed by this kind of approach — known as 'effort limitation'; in the case of scallop fishing, the number of rakes is limited.

It would be possible to extend the concept of effort-related licences to the groundfish fishery by giving licences that specify the use of a certain number of hooks on a longliner or a number of fathoms of gillnet. The appropriate measure for an otter trawler is harder to envisage, but it could relate to a combination of horsepower and hold capacity.

Considerable data relating catching capacity to various physical characteristics of vessel and gear would have to be collected and analyzed to develop a reliable index of catching capacity. But once developed, 'units' of capacity could be sold or traded, just as individual fish quotas could be.

A quota licence under this interpretation would entitle the holder to a certain amount of fishing capacity. The fisherman could not use a vessel of greater capacity than the licence specified. However, he could purchase from others the right to additional capacity and then move to a more efficient vessel once he had acquired a sufficient number of 'capacity units'.

This effort-related approach to limiting catching capacity has the advantage that it does not require keeping track of individual landings; nor does it have the inflexibility of boat quotas for small vessels. It provides a way to allow fishermen to move to more efficient vessels while, in theory, keeping total fishing capacity matched with the bounds imposed by the TAC. But it has the significant disadvantage of depending on the precise regulation of catching capacity, which is difficult in both theory and practice. For example, the same vessel would have different catching capacity in different fishing areas. Thus the system would, at least, have to be managed within defined fishing areas ('sectors').

In fact, it has been precisely the inability to regulate catching capacity effectively that has led to the spiral of regulation of technology that is now a major part of the problem in the harvesting sector. Under any system that tried to limit the amount of catching capacity a fisherman could use, the fisherman would still be motivated to maximize his catch, within the boundaries of regulation, because he would still be forced to compete for a common quota. Therefore the regulation of fishing effort or catching capacity does not address the root of the common property problem. Thus it is clearly second best when compared with a system of individual quotas.

The full potential of the quota licence concept therefore depends on finding a practical and highly flexible way to employ transferable boat quotas. One idea, which at this time must be considered completely speculative, would be to develop a 'quota exchange' in each major port.

It is an idea worth describing in some detail, not because it is necessarily to be recommended (although the Task Force believes that it should be examined carefully by the Department of Fisheries and Oceans and by fishermen's organizations) but rather because it brings out many of the features of quota licences and demonstrates that there is plenty of scope for imagination in the way they are designed and applied.

Each fisherman participating in the quota exchange system would initially be assigned a set of individual quotas for the fisheries in which he was eligible to participate. This would start things off; thereafter, the system would work through trading. (The method of assigning initial quotas is an extremely important issue, but is not related to the continuing operation of the scheme.)

A record would be kept of everyone's quotas, probably in a small computer with a terminal and operator at each port. As fish were landed, the amount would be subtracted at once from the individual's quota. The dockside grading system recommended by the Task Force (see Chapter 14) would facilitate record-keeping. Portions of quotas could be traded at any time among any of the fishermen holding quota licences in the area. The computer would contain a completely up to date record of everyone's position, and trades could be instantly 'negotiated' among fishermen with the help of the local computer terminal facility.

The system would be analogous to a stock exchange; the 'shares' would be the fish quotas of individuals. In areas where the scheme was in effect, it would achieve the same purpose as the 'one licence' concept advocated by a number of fishermen's groups. A fisherman could, through the exchange, acquire or trade quota covering any species for which there was a willing buyer or seller.

The great advantage of the system is that it permits the flexibility needed to make a boat quota scheme practical. The necessary computer and communications technology is widely available and relatively inexpensive. If fishermen in one local area were having a particularly good year, they could bid to buy quota, for that year, from others fishing the same stock but perhaps having poorer luck. This would have

the added advantage of tending to stabilize incomes; the effects of low catches by certain fishermen in any year could be partly offset by 'renting' their extra quota to those who were doing well. Of course no one would be under any compulsion to sell, trade or rent quota.

It is very important to understand that the price of traded quota would be determined entirely by transactions among fishermen in a given area. (Some restrictions on allowable transfers are suggested below.) All fishermen would begin with a fair allocation of quota that probably reflected in some way their catches in the past. After that, any transfers — temporary or permanent — would be at prices that reflected the value of extra quota to both buyer and seller. If dockside fish prices were relatively poor or if fish were very abundant, the value of extra quota would naturally be low. In other circumstances, the value would be relatively high. The essential point is that a fisherman would buy or sell units of quota only if he believed it was worth his while at the price offered.

Returning to the general concept of the quota licence, however it might be implemented, the benefits may be summarized as follows. A system of quota licences would lead to:

- minimum cost harvesting — thus better incomes and a more internationally competitive fishing industry;
- more orderly harvesting — because there would no longer be an incentive to race, there would be fewer gluts and better co-ordination between the catch and plant capabilities and market demand. Fishermen would, of course, still fish at the periods of greatest catch rate, so the seasonal peaks would be little affected in some fisheries — for example the cod trap fishery in Newfoundland;
- far less regulation of technology — fishermen would be left essentially free to choose the best means to catch their personal quota;
- the automatic regulation of access to the fishery by purchase or trade in quota licences, subject to whatever limits the government may decide, after consultation, to impose. At present access is limited, for example, by rules that may say that no new licences will be issued and therefore no new person can enter the fishery.

In this latter regard, the Task Force suggests that the following general restrictions on quota licences should be considered by government and fishermen:

1. The allowable catch from each fish stock should be divided initially by the Department of Fisheries and Oceans into an 'inshore' and an 'offshore' portion. The distinction is perhaps more accurately defined as being between independent and corporately-owned vessels. Each portion would be separately allocated into a set of inshore and offshore quota licences in those situations where the concept was acceptable and practical. (Most of the offshore quota was already divided, on a trial basis, in 1982 into 'quota licences' or 'enterprise allocations' held by the four major trawler operators. This experiment appears to have been very successful and should be extended to the rest of the trawler fleet in 1983 with a view to permanent incorporation, perhaps in 1984. The enterprise allocations might be established as percentages of the TAC in various stocks, and these percentages should be guaranteed for, say, at least a five-year period to permit better planning of investment in fleet and marketing.)
2. Quota licences should not be transferable between the inshore and offshore groups. An inshore fisherman could not accumulate quota within his group, then acquire a large trawler and move into the offshore group carrying the

accumulated quota with him. He could enter the offshore group only by acquiring quota from others already in that group.

3. The holder of an inshore quota licence should be required to be the operator of his vessel. This restriction would prevent the accumulation of a fleet of vessels under a single owner or the acquisition of inshore quota licences by processing companies.
4. A quota licence is, by definition, associated with a particular fish stock and therefore with a particular geographical area. Thus quota licences, by their nature, cannot be transferred from one region to another. For example, a 100-tonne quota of cod in Western Nova Scotia could not be sold as a 100-tonne quota in the Gulf. The two fish stocks are separate, each with its own set of quota licences. To fish in the Gulf, one would have to acquire quota in the Gulf. For inshore fisheries, the location of the quota will largely determine the location where the fish is processed, because the smaller vessels are limited in their ability to carry fish caught from one stock to plants in distant areas. Offshore trawlers are much less limited in this regard and would normally fish from a set of quotas scattered throughout the Atlantic fishing area.

A number of objections to the concept of property rights or quota licences in the fishery have been raised. In the view of the Task Force, most of these objections rest on misunderstandings. These ought to be resolved so that discussion can focus productively on the true merits and shortcomings of the idea. In the following paragraphs we outline several of the most frequently raised objections and our response to them.

It is argued that because fish are the property of the Canadian people they should not be converted to a form of private property. Our response is that the existing system of limited entry licensing already restricts access to the fishery. Quota licences in fact would broaden access by allowing outsiders to 'buy in' if there were a willing seller. The licences would not be private property in the ordinary sense of a perpetual and unrestricted right. Government could attach terms and conditions as it does when it grants individuals or companies the right to use other resources owned by the Crown (for example, the terms and conditions attached to timber-cutting rights on Crown land).

Some have worried that a system of quota licences would cause an exodus from the inshore fishery as many marginal fishermen sold out, and that this would severely disrupt the pattern of rural settlement. The Task Force acknowledges that there would probably be a gradual reduction in the number of inshore fishermen — a gradual rationalization of the inshore fishery similar to what has occurred in agriculture. But no one would be forced to sell out. Those who did could use the proceeds of the sale of their quota to start a new life. Unless and until there were attractive employment alternatives, the rationalization would take place slowly. This evolutionary, rather than revolutionary, change is one of the most attractive features of the quota licence concept. Moreover, those who remained in the fishery would be more prosperous, an important benefit in light of the data on fishermen's incomes presented in Chapter 4.

One of the most frequently expressed fears is that quota licences would become very expensive and therefore a barrier to new entrants. But the present system of limited entry already constitutes an inflexible administrative barrier to entry and to the transfer of licences. Therefore a quota licence system is less restrictive than what already exists in terms of limiting entry. In fact, the market in quota licences would ration entry to the fishery fairly. At present, in cases where no new licences are being issued, there is an impassable barrier to entry unless one is able to 'buy' someone else's licence and obtain approval for the transfer. In this sense there is already an

informal market in licences. The price of quota licences would reflect only what they were worth to other fishermen. They are unlikely to become very expensive in the east coast groundfish fishery. Furthermore, they could be used to obtain loans (that is, they could be borrowed against) like any other piece of property.

A related concern is the impression that the cost of buying quota licences would have to be included in the cost of fish and would thus weaken Canada's competitive position or cut down fishermen's net incomes. This argument is mistaken because it reverses cause and effect. The price received for Canadian fish products is determined by supply and demand in our markets. This price has nothing directly to do with the cost of producing the fish. The value of the quota licences would be determined by the supply and demand for them among fishermen. The demand for extra quota would depend on the profits that could be earned from fishing. Fishermen would only offer to pay for extra quota what it was worth to them.

The idea of quota licences in the fishery has sometimes been confused with egg or milk quotas in agriculture. The fact is that agricultural quotas and marketing boards serve an entirely different purpose. The agricultural system uses quotas to limit farm production in order to keep farm prices up in the domestic market. Thus they are part of a government supply management policy.

The upper limit on the supply of fish, on the other hand, is determined by biological considerations in the form of allowable catch quotas (the TAC). Prices for fish products are determined largely in the world market. The quota licence has nothing to do with market price for fish products or with supply management. Its purpose is to create the conditions whereby fishermen can minimize their operating costs by overcoming the effects of the common property nature of the fisheries. The Economic Council of Canada, which has been critical of parts of the agricultural quota and marketing board system, has strongly endorsed the concept of quota licences, or "stinted rights" as the Council called them, in the fishery.

A philosophical objection sometimes heard to the concept of quota licences is that the seller of a quota licence would reap a windfall gain from a right given freely by the Crown. Such a benefit could occur for the first recipient of a quota licence because the rights would initially be given freely to existing fishermen. If a fisherman sold out, he would receive 'a golden handshake' — the money he received for selling his quota — though the value of the handshake would depend on the worth of quota at the time. The same thing can happen now when a fisherman 'sells' his licence. In any event, subsequent holders of quota licences would have to buy from someone else and thus would not normally realize a significant net gain if they later sold out — that is, they might only recover on the sale the amount they paid to obtain the quota initially; or indeed they might recover less if the market for quota became 'soft'.

The Task Force is well aware that fishermen have been generally sceptical of the idea of quota licences. This is understandable because it is a novel and far-reaching idea. Moreover, many of the concerns just outlined have not been answered clearly before. Some may still oppose the idea because it implies a limit on what they may see as a fundamental right to fish. Those who take such a view must, logically, also oppose the existing system of limited entry licensing, and often they do.

In his report on Pacific fisheries policy, Peter Pearse describes the ideological argument over limited entry licensing and rights in the following apt terms:

... some fishermen insist that the government should fix the total catch and nothing else, leaving "free market forces" to sort out the efficient from the inefficient fishermen. According to this view, to attempt more than this would be to interfere with the free enterprise system as it applies to fishing.

This position contains a fundamental misunderstanding. The free enterprise system depends on someone having control over all of the factors of production, including natural resources, and ensuring that they are used in the most profitable way . . . common property is repugnant to the principles of a market economy, and those that invoke the virtues of free enterprise should be the least satisfied with the free-for-all of open fisheries . . . Nor, for that matter, does common property fit within classical socialism, which implies centralized ownership and control by the state with no competitive exploitation by independent fishermen. No more can be said for common property on political grounds than on economic or conservation grounds.

The need for some means of limiting access to the commercial fishery is, despite the occasional dissenter, generally accepted. What has not been well accepted, however, is the regulation that has been introduced to control the race for common property. Fishermen want an alternative. No one has offered a better alternative than quota licences.

The Task Force accepts that the implementation of a quota licence regime will be a complex and challenging task. For large, multi-vessel enterprises, catch limits on a stock by stock basis are undoubtedly the most effective approach, though some chronic symptoms of the common property phenomenon may persist — for example, mis-reporting of the area fished or the amount of catch. For smaller vessels, control on the basis of amount of catch will be more difficult to design and extremely difficult to enforce in the absence of general acceptance by the fishing community. For these vessels, a regime of licence quotas based on capacity to catch, however measured, may be more practical.

The difficulties of instituting such a system will be considerable. There will be technical problems of definition and initial assignment, as well as attitudinal problems that will have to be overcome. On balance, however, the Task Force believes strongly that the potential gains in economic viability of the harvesting sector are worth the challenge, as long as it is accepted that the system does not necessarily have to be implemented in all fleet sectors or all areas. (There might be little to be gained, for example, from a system of quota licences in Labrador.) In the final analysis, fishermen themselves will have to be convinced of the benefits before the system can be implemented effectively.

Review board

Another significant innovation recommended by the Task Force is the establishment of an Atlantic Fisheries Licence Review Board. The idea of a quasi-judicial body external to the Department of Fisheries and Oceans to oversee the licensing process builds on practices the Department has initiated over the past several years. External committees, both local and regional, have been organized on an ad hoc basis to deal with the issue of new licences in some fisheries and with the categorization of fishermen. The Task Force considers that it would be highly desirable to formalize this process and to create an ongoing quasi-judicial body whose major function would be to act as arbiter and referee, within policy guidelines established by the Department. The proposed division of responsibilities is shown opposite.

We do not see such a body taking over the ongoing and routine licensing functions of the Department such as the annual renewal of licences at DFO offices in fishing communities. Neither would it become involved in routine transfers under a quota licence regime. However, it would be informed of all such transactions and would monitor them against established criteria and guidelines. It would also rule on cases that are on the margin of established guidelines or that involve substantial changes in fishing or landing patterns, and whenever a decision of the Department is appealed. The significance of these changes in process would be that Licence Review Board

Significant innovation recommended by the Task Force

Licensing and Allocation Responsibilities

Fisheries and Oceans	Licence Review Board
1. Establish Total Allowable Catch (TAC) each year.	1. Establish initial allocations wherever enterprise allocations or quota licences are instituted.
2. Allocate TAC among fleet sectors.	2. Allocate increases (or decreases) if TAC is adjusted during the year.
3. Set Fishing Regulations, e.g., mesh sizes, seasons, closed areas, by-catch.	3. Decide who gets licences in new or expanded fisheries.
4. Establish the number of licences to be issued.	4. Hear and decide on appeals against departmental decisions on licence or allocation transfers and licence cancellation or suspension.
5. Renew licences annually.	5. Decide on applications for substantial transfers of allocations or licences, e.g., where viability of a processing operation may be affected.
6. Set criteria for enterprise allocations and quota licences, including criteria for sale or transfer.	6. Advise DFO on licensing and allocations policy.
7. Establish licence conditions and monitor performance against these conditions.	7. Maintain a public registry of licences and the terms and conditions attached to licences.
8. Administer 'routine' transfers of licences and enterprise allocations.	

proceedings would be open and its decisions public and accompanied by the reasons for them.

The Board should also decide who gets new licences as and when new fisheries are begun or existing ones are expanded. The quasi-judicial body would not be involved in the setting of the TAC or its annual allocation among fleet sectors, as these decisions are part of the responsibility of the managers of the resource, but it would be involved whenever a decision was made to expand the TAC in the middle of a fishing season. The Licence Review Board would decide who should get the new allocations.

In this regard, the Task Force has serious reservations about the way the TAC in some fisheries and in some areas has been expanded in the middle of the fishing season in response to pressure from processors' and fishermen's organizations. To the extent that the resource managers give in to such pressure, they severely undermine the fundamental purpose of the TAC and intensify all the difficulties associated with the common property problem.

The members of the quasi-judicial board should be drawn from outside the fishing industry and would probably operate on a part-time basis, supported by perhaps three to five permanent staff. The Board would conduct public hearings on major issues such as the transfer of trawler fishing capacity between ports or large transfers of quotas between 'owners', and its decisions could be appealed to the Minister of

Fisheries and Oceans or the Cabinet. Thus, the process by which fishing privileges are allocated would become more open and credible and, we believe, ultimately more efficient and responsive.

Although the Task Force favours establishing an independent Atlantic Fisheries Licence Review Board, the exact institutional requirements are not as important as the process. To meet our objective of fairness discussed in Chapter 23, it is essential that licensing decisions be subject to review, and that the whole licensing process be fair and be seen to be fair. To this end, decisions regarding granting or withholding licences should be subject to open public review, with all interested parties free to make representations. Review board findings should also be public, with the reasons for decisions documented and published. Needless to say, there must be a registry of licences, including any terms and conditions that may be attached to them, maintained and open for public scrutiny.

Fisheries administration in Québec

The continued division of responsibility for administration of the harvesting sector in Québec creates confusion among fishermen; both duplication and gaps in essential activities and in obtaining essential information; and dissatisfaction in other provincial governments as well as in the industry generally. The difficulty of obtaining the most basic information on Québec fisheries leads to the conclusion that the status quo is not acceptable.

Our recommendation with regard to consolidating federal management of the fisheries in the Gulf of St. Lawrence reflects our concern about the duplication, confusion and lack of data available to us as a result of the delegation of fisheries administration to Québec. This situation has evolved out of a federal-provincial agreement dating back to 1922, as subsequently interpreted and administered by the province. A different approach is required for the management of modern fisheries that use highly mobile gear and where the stocks are being exploited by fishermen from five different provinces.

The assumption of full management responsibility by the federal government should also entail increasing federal fisheries visibility in the province through, for instance, establishing a research centre in the lower St. Lawrence area. A group should be set up within the federal government to carry out negotiations with the province of Québec on the transfer of responsibility and on related transitional arrangements.

11. Resource-Short Plants

It is well known that seasonality of operations is a major factor limiting the viability of inshore plants. The 1980 report by the Economic Council of Canada, Newfoundland: From Dependency to Self-Reliance, noted that a plant's unit costs are roughly 30 per cent higher when it operates only six months of the year than if it operates continuously.

*Independent Fish Producers
Association of Newfoundland and
Labrador, in a submission to the Task
Force.*

The Problem

The highly peaked, seasonal nature of inshore catches of groundfish, squid and pelagic species, particularly on the east coast of Newfoundland, requires a large processing capacity, which is then under-utilized in the off-season. These under-utilized facilities are referred to as 'resource-short' plants.

The capital cost of much of the seasonal plant capacity (basically freezer plants) constructed since 1977 is too great to be supported solely by the volume of fish supplied by the inshore fishery which, for technical and biological reasons, will always be limited to a relatively short season. At the same time, the rebuilding of the northern cod stock will require even greater peak season processing capacity, resulting in even more serious under-utilization in the off-season, if practical means are not developed to spread the growth in production outside the June to August period.

The issue is to determine how to supply resource-short plants with fish in the off-season to improve their degree of utilization and thus their chances of economic viability.

Recommendations

10. Establish specific allocations of fish for delivery to resource-short plants in the off-peak season. The deliveries should be by a self-financing fishing company or consortium. The only government contribution to this company or consortium would be an allocation of fish. By a target date of 1987, only Canadian vessels should be permitted to catch these allocations.
11. Adopt the following criteria as the basis for selecting the plants that will qualify as resource-short. For purposes of the policy a plant will be defined as resource-short if:
 - a) its principal supply of fish is from vessels of less than 65 feet;
 - b) the ratio of the production of the plant during its six months of greatest throughput to its production during the balance of the year is greater than a specified threshold (e.g., 5 to 1); and
 - c) the plant has installed, as of 1 November 1982, plate freezing and cold storage capacity and is capable, with at most minor modification, of winter operation.

It is recommended that preferential, though not exclusive, access to the special resource-short plant allocation should be reserved, with right of first refusal, for eligible plants adjacent to the northern cod stock on the east coast of Newfoundland (i.e., the shoreline of NAFO areas 2, 3K and 3L). The balance, plus any allocation refused by plants on the east coast of Newfoundland, should be available with right of first refusal to resource-short plants in all other east coast areas. Any remaining allocation for which the right of first refusal was not exercised would be available for bid by any Atlantic coast processor.

Comment

The recommended policy follows from all three of the objectives the Task Force recommends for the fishery — economic viability, increased employment, and maximum Canadian participation in the fishery.

In the transition period, advantage can be taken of foreign capabilities and immediate preparedness to deliver fish. We rejected the option of permanent foreign deliveries to resource-short plants principally because of the resulting dependence on supply that could not be controlled by Canada. Foreign vessels might be prepared, for a time, to land fish more cheaply than Canadians as long as they employed older vessels with few alternatives in other fisheries. This would not likely continue once dependence had been established and the foreign suppliers had to replace vessels.

The criteria recommended by the Task Force to identify which plants should be eligible to receive fish from the special allocation set aside for the program must be finalized by the Department of Fisheries and Oceans in consultation with all those affected. In particular, criteria (a) and (b) in recommendation 11 must be refined by establishing precise quantitative definitions for the words “principal supply” and “specified threshold”.

It should be noted that the criteria do not rule out resource-short plants that may be owned by trawler operating companies. The existing quotas assigned to these companies are to supply their year-round, trawler-fed plants. Their inshore plants are subject to the same economic difficulties as similar plants owned by those without trawlers; they should therefore be eligible to participate in the resource-short plant program if they have plants that satisfy the criteria. The enterprise allocations of trawler owners should be tailored solely to the requirements of their trawler-fed plants. Any entitlement in respect of their resource-short plants should probably be made separately and supplied by vessels mandated to deliver fish to resource-short plants.

It will obviously not be possible to provide fish to every under-utilized plant. The intent is to improve the viability of the larger capacity, inshore-supplied freezing plants that are needed to process the peak summer volumes of groundfish, squid and pelagic species, principally on the east coast of Newfoundland. There are roughly fifteen such plants. The Task Force believes that these plants deserve priority of access to northern cod delivered under the proposed resource-short plant program because their under-utilization problem is a direct result of the large freezing capacity required to handle the inshore fishery for northern cod and other species on the east coast of Newfoundland and Labrador.

Nevertheless, the Task Force recognizes that other plants in Atlantic Canada are also resource-short by the definition established in recommendation 11. Because fish within the 200-mile zone are a national resource, it follows that some portion of the resource-short plant allocation should be available to plants elsewhere than on the east coast of Newfoundland. The most appropriate division requires further investigation and consultation by the Department of Fisheries and Oceans.

By 1987, approximately 50,000 t of northern cod and lesser amounts of turbot, redfish and possibly cod in NAFO area 2GH might be allocated under the program. The eligible plants would have the right of first refusal for the fish, but if for any reason their requirements, at prices acceptable to the catchers, fall short of the total allocation, the balance should be made generally available for bids by other Atlantic coast processors.

An allocation as described would provide an average annual delivery of northern cod of 2500 to 3000 t (live weight) to each eligible plant. Today, an inshore freezing plant on the east coast of Newfoundland might process about 5000 or more tonnes of

cod between April and October. The addition of 2500 t would be very significant in terms of both employment generated and contribution to fixed overhead. Eventually, a fleet of 10 to 15 freezer trawlers would be required to land 50,000 t of northern cod during the November to April period.

The Department of Fisheries and Oceans would call for proposals for the formation of a catching organization to take all or part of this allocation for the purpose of supplying resource-short plants. Existing companies, consortia or new enterprises would submit plans and proposals to the Atlantic Fisheries Licence Review Board for consideration. The Board would make its decision based on criteria such as the financial soundness of the applicants, the proposed technology to be used, catching and cold storage costs, and the degree of Canadianization. The selection would be made only after full public hearings, and the Board would be required to accompany its decision with the reasons for it.

Alternatively, the allocation could be assigned to a consortium of resource-short plants that would then call for bids to have the fish caught. This alternative would make it more difficult to create a new Canadian capability to harvest the fish, because potential vessel-owners would not have the necessary long-term assurance of a supply of fish to justify investment in vessels. This might be overcome by the negotiation of long-term contracts with the resource-short plants consortium.

The price of the fish would be negotiated between the catching organization and the plants that would process it. The price would have to ensure the viability of the harvesting organization and include a margin sufficient to permit replacement of vessels. No operating subsidies or extra allocations of fish should be made available. The harvesting organization would, of course, have to have sufficient allocations of species other than northern cod to permit a year-round fishing plan. Some of these species — for example, squid, redfish, mackerel — could be frozen at sea and marketed directly by the organization.

Disputes might arise regarding the ultimate disposition of the fish, particularly if one of the priority plants was unprepared to pay the price demanded by the catcher. Would such an impasse constitute effective forfeit of the right of first refusal by the eligible plant, or would the harvesting organization be required to lower its price in view of the mandate to supply the resource-short plant? General guidelines must be developed in respect of such issues. An arbitration procedure could be developed that could be administered by the quasi-judicial Board proposed in recommendation 8, Chapter 10.

12. Utilization of the Northern Cod Stock

*The cod of 2J, 3KL,
Produces excitement pell-mell,
It's a fast-growing stock,
Which all want to dock,
Who will get it? Well, we're here to tell.*

A Task Force Wit

The Problem

The Total Allowable Catch of northern cod is forecast to increase by at least 170,000 t, or 75 per cent, between 1982 and 1987, with the Canadian quota projected to be at least 380,000 t in 1987. In the years ahead, most of the growth of groundfish inside 200 miles will occur in this stock.

Allocation of the increase in the northern cod stock will cause controversy, yet it represents the best remaining opportunity to achieve better incomes for fishermen and greater utilization of processing capacity. It has already been suggested (in Chapter 11) that an eventual allocation of up to 50,000 t of northern cod be made to a harvesting organization that will deliver fish to resource-short plants. It was also recommended in Chapter 9 that allocations to foreign fleets be minimized.

The policy issue is to determine the allocation of the remainder of the northern cod TAC among the principal fleet sectors.

Recommendations

12. Allocate the Canadian quota of northern cod by 1987 approximately as follows (initial 1982 allocations shown for comparison):

	1982	1987
1. Inshore allowance	120,000 t	145,000 t
2. Existing trawler fleet¹	87,250	145,000
3. Resource-short plants	5,250	50,000
4. Other fixed and mobile gear²	2,500	40,000
	215,000 t	380,000 t

¹ Vessels over 100 feet.

² Allocation in 1982 for vessels 65 to 100 feet and in 1987 to these plus new 'Scandinavian-type' longliners.

Note: The 1987 allocations are indicative only. The projected 380,000 t Canadian quota is obviously subject to refinement. The allocations will be subject to adjustment for this reason, as well as in response to the evolution of allocation policy in consultation with the industry.

13. Conduct, through the Department of Fisheries and Oceans, an economic study of the feasibility and cost-benefit of freezing a portion of the summer inshore catch for processing in the off-season.

Comment

The allocation of northern cod has been, and remains, the most sensitive allocation issue in the fishery. A government-industry seminar in the spring of 1979 produced an allocation policy, but did not stem the controversy. Debate has centred on priority of access. It is generally agreed that inshore fishermen on the east coast of Newfoundland must have first call on the resource. This has been reflected in policy to date which in 1982 allocated 56 per cent of the anticipated Canadian catch to vessels under 65 feet and just over 40 per cent to trawlers over 100 feet.

There is disagreement on the remaining priorities. The Government of Newfoundland and Labrador has taken the view that second priority belongs to resource-short inshore plants adjacent to NAFO Areas 2J,3KL. The provincial government would give third priority to trawler fleets based in Newfoundland. Any remaining quota might then be caught by other Canadian trawlers.

Trawler owners outside Newfoundland have naturally taken a different view and insisted that they be assured a share of northern cod to compensate for the loss of access to stocks further south and west, particularly in the Gulf. The Newfoundland Fishermen, Food and Allied Workers Union has agreed, stating that the Atlantic deep-sea fleet, regardless of its home port, should have second priority after inshore fishermen, and that resource-short plants should be supplied in the off-season from any remainder.

Even if there were consensus on priority of access, the issue of allocation would not be settled because there is no unambiguous way to determine, for example, when the requirements of a higher priority group are fully satisfied. Eventually, disagreement will centre on specific tonnages.

There must be a phased transition between the current allocation shares and those proposed for 1987 and beyond. Both the inshore allowance and the allocation to existing trawlers would be expected to reach their target levels before either the longliners or the fleet supplying resource-short plants reached the allocations indicated in recommendation 12. These latter two categories, if their feasibility is proven, will require proportionally less of the early growth and more of the increase in 1986 and 1987. For 1983, an allocation of approximately 10,000 t to resource-short plants is probably all that will be available.

The Task Force recommends that the allowance to existing inshore vessels not be increased proportionally to the growth in the TAC. Proportional growth would imply increasing the inshore allowance by roughly 90,000 t over the next five years. If this growth were to be caught by vessels of the existing type, whose operation is limited largely to the June to August period, it would result in roughly 60,000 t of cod being added to the summer peak. The average summer rate of delivery to processing plants would be approximately doubled.

It is probably not feasible to cope with such an increase without substantial new processing capacity. Even in 1982, foreign vessels were used on the Avalon Peninsula to relieve a glut of inshore cod. In any event, a great deal more trucking of fish would be needed to cope with local gluts, and plants would have to operate almost constantly on double shift. Labour supply and cold storage then become constraints. The necessary cost-cutting in plants, discussed in Chapter 16, would almost certainly not be achieved. Thus, a proportional increase in the inshore allowance would be inconsistent with the economic viability objective recommended by the Task Force.

Nor does the Task Force recommend a proportional increase in the allocation to existing trawler operators. The proposed increase of more than 65 per cent over the initial 1982 allocation to this group, together with a share of growth in some other offshore stocks, ensures substantially larger supplies to existing trawler plants and, we believe, will make an important contribution to their economic viability.

As explained in the previous chapter, the extreme under-utilization of many large inshore freezing plants suggests that the wisest economic course is to apply a significant portion of growth in northern cod to these idle assets to improve their prospect of viability. As we have said, the large capacity of these plants is essential during the inshore season in order to meet the Task Force objective of maximizing employment.

The feasibility of freezing and storing inshore cod for off-season processing is a technical and economic question that deserves investigation. Work done in the past on the quality and cost implications of the procedure came to a negative conclusion, but cannot be considered to have been completely definitive. The Task Force believes that the technical and economic issues should be settled objectively once and for all through a study sponsored by the Department of Fisheries and Oceans.

The suitability of a fleet of large 'Scandinavian-type' longliners operating from the east coast of Newfoundland has been vigorously debated. Such vessels have been operated for decades off Newfoundland by Norwegians and Faroese. The issues centre on the economics of such vessels and their acceptability to Newfoundland crews. The unanswered economic question is whether a year-round fishing plan for the vessels can be designed without impinging on stocks that are already fully utilized.

The possibility of longlining northern cod almost year round has been questioned but not settled. The feasibility of the technique during much of the year is, however, beyond doubt. Longlining was introduced on the east coast of Newfoundland in the early 1950s with considerable success. The method was abandoned and replaced with gillnetting only after foreign over-fishing had decimated the northern cod and reduced catch rates to uneconomic levels. An echo of this era remains in Newfoundland where the present day gillnet vessels are called 'longliners' because they are of the same basic design as the original longliners introduced from Nova Scotia.

The Department of Fisheries and Oceans plans to conduct an extensive experimental evaluation of a Scandinavian longliner on the east coast of Newfoundland. This may settle many of the issues, but continued attempts to develop a suitable longlining technology would be warranted whatever the outcome of the government's experiment.

The offshore longliner is a significant technical option because there appears to be no other intermediate gear type between the present inshore vessels and a large stern trawler that is capable of fishing northern cod. The small 65-foot otter trawlers that have been so productive elsewhere on the Atlantic coast would be severely limited by weather and by the unusually rough bottom conditions on the northern cod grounds. Trawling is also a technique that conflicts with existing types of inshore fixed gear, which remain anchored in the water and may be torn up by the towed net of the otter trawlers. The offshore longliner is not constrained by these factors.

The extreme seasonality and low annual productivity of the inshore fishery on the east coast of Newfoundland and Labrador is fundamentally a problem of technology. This constraint has stunted the economic development of this part of rural Canada for generations, despite the fact that it is adjacent to the most prolific cod fishery in the world. The situation can be altered fundamentally only by adopting a new technology for harvesting northern cod.

The Task Force has placed what might appear to be unusually high priority on the development of a fleet of large longliners. This priority follows directly from our first two objectives. The longliner appears to be the only existing technology that is capable simultaneously of improving the economic viability of the industry — for example, by supplying top quality and large size fish year round — while maintaining a relatively high level of employment and providing a good annual income for fishermen.

13. The Northern Fisheries

In coastal Labrador, the fishery is the main source of activity by which money is generated into the local economies both through fishermen's incomes and those employed in the collection, handling and processing of the fish. Since coastal Labrador at present does not have any oil, mineral or other major natural resource development, our sole economic dependency at present is the fishery. It therefore warrants every measure of protection to ensure the long-term viability of the coastal communities.

Torngat Fish Producers Co-operative Society Limited, in a brief to the Task Force.

The Problem

The northern extremity of the Canadian commercial fishery is in an area where weather and ice conditions, together with the migratory patterns of the various fish species, combine to produce a very short fishing season and high variability from year to year in fishing success. In northern Labrador, sea ice often persists until June; local freezing and bad weather prevent small boat operations as early as October.

The policy issue is what measures are needed to deal with the chronic under-development and instability of the fisheries economy in the northern part of the Canadian Atlantic, defined roughly as the area north of 50° latitude and including the Great Northern Peninsula of Newfoundland, Labrador and the lower Québec north shore of the Gulf.

Recommendations

14. The governments of Canada, Québec and Newfoundland and Labrador should recognize the need for co-ordinated economic and social development initiatives in this area, and explore ways of jointly improving the socio-economic condition of the area. Federal co-ordinating responsibility would come under the purview of the Ministry of State for Economic and Regional Development.
15. Amend the Saltfish Act to allow the Canadian Saltfish Corporation to buy, process and market fish and fish products in addition to saltfish in that part of the Great Northern Peninsula of Newfoundland north of 50° and in Labrador and the Québec north shore of the Gulf. In particular, the Canadian Saltfish Corporation might purchase and operate plants such as the one it operated this summer at St. Anthony, though it would not have any monopoly on the purchase, processing or sale of uncured fish in this area.

Comment

The whole area of the Québec lower North Shore, the Great Northern Peninsula north of 50°, and Labrador is characterized by (1) low capital investment; (2) an untrained work force; (3) unstable local economies; (4) the transport out of the area of raw and semi-processed fish; (5) high transportation costs; (6) inadequate basic infrastructure (e.g., 3-phase power is not available in coastal Labrador); and (7) chronic dependence on government subsidies.

This area is one of four or five in the country that can truly be described as grossly under-developed; hence recommendation 14. If it is ever to emerge from the dependency trap, it will be only through government programs that generate jobs related to the exploitation of local resources. The only economic resource base in the area is the fishery. It holds job potential not only in fishing and fish processing, but also in boat repair, gear construction and other service activities.

The key to economic development in the area is to ensure that the fishery is organized for the benefit of local participants, and that cross-subsidization takes place internal to the local area. Thus, for example, profits from shrimp allocations might be used to cross-subsidize losses on groundfish plants, or revenues from possible over-the-side sales could be channelled into investments in shore processing facilities and infrastructure.

The problems could be addressed by one of three general approaches:

1. build on the present mix of private and public sector involvement;
2. foster the creation of a 'designated instrument' to push economic development in the area; or
3. create a Crown agency as a development corporation to use the fishery as the major element of an integrated plan to build a more viable economy in the area.

The Task Force favours the use of the Canadian Saltfish Corporation (CSC) as the 'designated instrument' for fisheries, economic, social and community development in the northern area of Newfoundland and Québec. However, we do not recommend that it be given a monopoly over fish processing or marketing in this area.

The vulnerability of the area to outside decisions not in the best interests of the area became clear this spring with the closure of the plant in St. Anthony — a problem that was resolved only by federal government intervention to re-open the plant. This experience showed how well plants can be operated if all concerned appreciate that they are working for themselves and their community rather than for the benefit of a distant head office.

For example, at St. Anthony the quality of landings and production has been improved to the point where 80 per cent of output is in fillet packs, as compared with 50 per cent going into fillets last year. This was due to a number of factors, including improved management at the plant, excellent co-operation between union leaders and plant management, the use of quality buying practices and, most important, a significant increase in productivity by plant workers. The result is that a plant that operated at a considerable loss in 1981 will come close to breaking even on operations this year.

The close link between the management of St. Anthony Fisheries and the CSC that existed this year should be strengthened and expanded by modifying the mandate of the Corporation in this area. By using the Corporation as a way of realizing, through agency arrangements, the potential for community ownership, the fishery resources adjacent to the area can be the basis for moving the area out of a dependency trap and onto a path of modest economic growth.

We favour changing the mandate of the CSC over the option of a more broadly based development corporation because the Saltfish Corporation is already operating in the area, and because a new agency would take time to set up. Moreover, a new agency would create another level of bureaucracy that would have to co-ordinate (or be co-ordinated by) a multitude of federal and provincial agencies. We believe it would be preferable to use the present fisheries Crown corporation, with its existing expertise and presence in the area, to act as the agent for change, with its activities, and those of other federal and provincial agencies, co-ordinated by existing mechanisms.

We reject the view that the change in the mandate of the Canadian Saltfish Corporation would result in its special role eventually creeping into other areas. Its special role would be defined in legislation, and any expansion of the geographic area to which its enlarged mandate would apply would also require amendments to that legislation.

14. Quality

There is no doubt that stronger measures have to be taken to improve the quality of our fish if we are to become more competitive in the markets and if we are to expect fish prices to improve.

Maritime Fishermen's Union, in a brief to the Task Force.

The Problem

The quality of Canadian Atlantic groundfish and herring products has the reputation of being on average inferior and inconsistent compared with the products of Canada's principal competitors. In order to broaden Canada's market base — so as to avoid over-supplying existing markets for Canadian fish as production grows and thus depress prices — a significant increase in the percentage of first quality product is essential. In addition, better quality raw material will significantly reduce direct operating costs in plants.

The policy issue is whether quality improvement is best achieved by government regulation and/or incentives or best left to individual processors and fishermen to achieve in a purely voluntary way.

Recommendations

16. Implement, after a one-year trial period, dockside grading and final product grading concurrently, with the latter, including the determination of grades and labelling, being used as a tool of marketing strategy.
17. Implement at the federal level, and with some practical exceptions, mandatory bleeding, gutting, icing and washing of groundfish at sea, with simultaneous and matching provincial legislation applied at the point of dockside sale.
18. Prepare a detailed infrastructure development plan on a community by community basis to support quality enhancement. There should be special emphasis on the provision of adequate ice-making facilities.
19. Incorporate quality considerations in the proposed production bonus program for fishermen (see Recommendation 40, Chapter 18).
20. Prepare a detailed quality awareness and education program to ensure that within three years all participants in the industry are exposed to formal training in the principles, benefits and methods of treating fish as food.
21. Enforce universally the 130 mm otter trawler mesh size limit, and encourage the use of hook and line gear rather than gillnets and traps.

Comment

There is compelling evidence that the quality of Canadian groundfish and herring products is inconsistent and of significantly lower average standard than the quality of our Scandinavian competitors' products. There are significant exceptions to this general conclusion; some Canadian product is equal to the world's best.

Quality is not an end in itself. It is a means to higher net market returns from the resource. Unfortunately, failure to improve quality will result in the increasing Canadian supplies being sold into the existing market niches for our products. This would, at least in the short run, tend to depress prices for Canadian products, as these markets would require price reductions to expand.

The Task Force is therefore convinced that improved quality is a *sine qua non* for the economic viability of the industry. On the other hand, quality improvement cannot be imposed heavy-handedly on the industry — rather, the industry has to be con-

vinced that quality pays and that the benefits and costs of quality are shared fairly between fishermen and processors.

Achieving higher quality is largely a matter of reforming practices in all sectors of the industry. This requires significant attitudinal changes. From the very beginning of the industry in Canada, fish products have often been considered as commodities to be produced rather than as goods to be consumed, as a source of livelihood and not as a delicate and perishable food on a distant table. This attitude has plagued the industry for generations. It may have even been appropriate when costs were lower, when fish was cheap compared with meat and poultry, and when consumers either could not afford alternatives or were less discriminating. But a change of attitude toward greater understanding of consumer wants is needed if quality is to be improved — a change required of both fishermen and processors.

Dockside grading

Results of a pilot project conducted by DFO in 1981, and preliminary results of an expanded series of projects conducted this season, have demonstrated to our satisfaction that quality can pay. Dockside grading with subsidized price incentives for premium quality landed fish have resulted in better quality landed fish, less processing waste, increased yields, and lower production costs. These results indicate that processors can pay quality premiums and still increase profits as a result of increased yields and higher labour productivity. Once these results are examined by the industry, we are confident that the demonstration effect can lead to improved quality throughout the industry.

The precondition for improved landed quality is, however, the implementation of dockside grading as the basis for dockside pricing that incorporates significant differentials based on quality. Dockside grading does not, by itself, change the way the port market operates; it simply provides information, based on accepted uniform standards, on the quality of fish landed. Thus, to be effective, dockside grading will require processors to exercise buying discipline — until now, a factor sadly lacking throughout the industry. The value of dockside grading will vanish if buyers bid away the quality price differentials by paying high-quality prices for low-quality landed fish.

Proper handling

As with other subjects the Task Force studied, several myths abound. Two are that trap-caught fish are of intrinsically inferior quality and that trawler-caught wetfish are of superior quality. In fact, the opposite can be the case; trap-caught fish, if bled, gutted, washed and iced soon after being caught, can produce superior quality product — and bleeding and gutting on trap boats has been shown to be feasible, contrary to popular belief. On the other hand, trawler-caught wetfish, even if bled, gutted, boxed and iced properly, still deteriorates on long trips, and the first days' catch of a 15-day trip cannot be expected to yield much better than standard quality block.

On the question of on-board bleeding and gutting, some would argue that this is not necessary if the fish are landed within a few hours of being caught, as is the case with many inshore fisheries. The fact is that to produce prime quality product, fish should be bled while still alive, then gutted to remove stomach contents which can deteriorate the flesh quite rapidly. If the fish are bled and then processed within hours of capture, gutting might not be necessary, but gutting does preserve the 'holding life' of the fish, a factor that is extremely important when fish are being landed in any quantity.

It is also extremely important to put fish on ice as soon as possible after it is caught, as this retards the process of rigor mortis. If the fish are not iced very quickly and kept chilled, rigor mortis sets in rapidly and the speed of this change adversely

affects the quality of the product that can be produced. The higher the temperature, the faster rigor mortis occurs, and fillets cut from fish that have passed too quickly through rigor mortis are typically soft and gaping.

Whether bleeding, gutting and icing of fish at sea should be made mandatory was one of the most difficult issues faced by the Task Force. On one hand, we are convinced that such practices should benefit both fishermen, through price premiums, and processors, through lower processing costs and improved market returns. But we are hesitant to recommend what really amounts to imposing sound business practices by regulation.

Nevertheless, our analysis of the port market, showing the tendency for processors to compete among themselves for security of supply and volume, rather than for quality, indicates that present port market structures do not provide for adequate quality price premiums and buying discipline among processors. Positive steps are thus needed to improve the quality of landed fish. As a result, we are drawn reluctantly to the conclusion that bleeding, gutting and icing at sea should be imposed by regulation, preferably by both federal government regulations relating to activities at sea, and provincial government rules applying at the point of dockside sale. There would have to be some exceptions, however, as in the case of certain winter fisheries, as well as for such species as flounder and redfish, which are not normally gutted at sea in any fishery.

Mandatory bleeding, gutting and icing at sea is supported by the governments of Newfoundland, Nova Scotia, New Brunswick and Québec. It is hoped that these provinces will also co-operate in introducing matching legislation to prohibit the purchase of catches that have not been handled in accordance with federal regulations.

Mandatory bleeding, gutting and icing at sea will, of course, reduce the incentives for processors to pay quality price premiums. This will require careful monitoring and, if necessary, the use of moral suasion and publicity to induce processors to adopt quality pricing practices. Where prices are bargained collectively, quality-based price differentials can be negotiated.

Product grading

With respect to final product grading, the Task Force sees this as a logical extension of in-plant quality control. Indeed, since most processors claim to be packing to customer standards already, final product grading should not impose any significant additional costs. We feel that the advantages of final product grading outweigh the disadvantages by fostering quality consciousness, buying discipline and the marketing benefits associated with brand identification and attachment. It is essential, however, that final product grading, including the labelling of the grades, be developed in the context of a marketing strategy. Product grading will be of benefit to our customers if it is designed with sensitivity to their requirements. The concern expressed to us by some processors that final product grade labelling will enable buyers to force down the price of second grade products is unconvincing. Ultimately, the prices paid will depend on the supply and demand for products of any particular type and quality. Intelligent grading merely facilitates the determination of quality by the purchaser. Without grading and labelling, the buyer eventually makes a determination of quality, although this may be after testing or in light of experience. From the buyer's viewpoint, the information and confidence provided by a grade label — or by a brand name — is worth something. Certainly, grade labelling, properly applied, could not diminish the value of Canadian fish products.

The cost of improving quality, in terms of effort and dollars, must be borne by everyone in the industry, not just fishermen. Enforcement of dockside and final product grading will be critical. For these programs to succeed, enforcement must be tough

but fair. The regime for dockside grading and its enforcement must be worked out in conjunction with the provinces, all of which have indicated willingness to co-operate in developing the dockside grading approach.

For enforcement of final product grading, we favour a system of exporter licensing tied to the ability to do the grading (see Chapter 17). Should a plant not perform final product grading up to prescribed standards, its licence would be subject to suspension, in which case the plant could continue to process fish, but its products would have to be graded by another licensed company. Alternative enforcement mechanisms would be fines, which would have to be substantial if they were not to become simply a cost to the processor of regular non-compliance, or suspending a plant's operating certificate, a penalty that fisheries authorities might be reluctant to impose, given the jobs at stake. This is why we chose licensing of exporters as the preferred enforcement mechanism.

Our other recommendations with regard to quality, particularly those relating to infrastructure development and a quality awareness and education program, are meant to re-orient the industry away from volume considerations and move it toward greater emphasis on quality, particularly with regard to on-board and dockside handling. The proposed 'production bonus' (see Chapter 18) would be payable only for fish landed in top quality condition, according to the dockside grade standards.

15. The Port Market

[T]he price of fish is central to all planning related to the fishing industry.

Newfoundland Fishermen, Food and Allied Workers Union, in a brief to the Task Force.

The Problem

The port market is where the fisherman, as a seller of landed fish, meets the processor, as a buyer of raw material. For the purposes of this chapter, the port market includes only the direct sales of fish by independent fishermen to processors, and not the exchanges that take place through over-the-side sales to foreign vessels, or within co-operatives or vertically integrated processing companies. The latter transfers, however, have a significant influence on the interaction between the processing and harvesting sectors at the port market and they may influence the quantities involved in dockside transactions.

The port market can be described as not being 'orderly'. Its structure, the behaviour of buyers and sellers, and the seasonality and common property nature of the resource inhibit the establishment of appropriate quality price differentials at dockside and the timely delivery of the optimum quantity and quality of fish.

The policy issue is whether new structures are required to make the port market more orderly, so as to generate better incomes for fishermen and greater net returns, through improved quality of raw material, to processors.

It should be noted that port market transactions fall under provincial jurisdiction, and any reform in this area would require the co-operation of the provinces.

Recommendations

- 22. Processors should establish price differentials for landed quality, and cases where adequate differentials do not exist should be publicized.**
- 23. Provincial governments that have not adopted collective bargaining legislation for inshore fishermen should do so. The federal government should support such collective bargaining by providing unequivocally for it, in all its forms, when new competition legislation is introduced.**
- 24. The federal and provincial governments should study the concept of port market mediation commissions, port market authorities, or other institutions that may lead to greater order and efficiency in the port market.**

Comment

The Task Force sees the port market as the focus for many of the structural issues in the industry. In addition to the issues of quality, the orderly operation of the port market holds the key to the effective implementation and monitoring of quota licences (through the generation of reliable data), to better ways of delivering income supplementation and stabilization programs, and to improved consultation and less animosity and conflict between fishermen, processors and governments.

As explained in the previous chapter, price incentives are the only way to engender better performance and a better attitude toward quality, and governments must use their leverage to induce processors to pay quality differentials.

One method of port market restructuring, and one that is strongly advocated by the NFFAWU, would be based roughly on the Norwegian system where, failing agreement between processors and fishermen on prices, the government steps in to pay the difference between what an average processor can afford to pay to generate a reasonable profit and what the average fishermen requires to yield a reasonable return on investment and a decent income.

Apart from the definitional and data gathering problems, this approach is flawed because it would inevitably lead to a subsidy spiral, as it has in Norway. If net incomes are protected by the price subsidy, then there is no incentive to hold costs in line. Neither processors nor fishermen will be constrained to limit their increase in capacity, knowing that as their costs increase, the price subsidy will cover losses. The result is that the subsidy increases as the industry becomes less efficient in terms of cost per unit of output — exactly what has happened in Norway. It seems to us that there are better ways to improve fishermen's incomes, and these are discussed in Chapter 18.

Regarding the other approaches to port market reform, we see the creation of port market mediation commissions, with provincial co-operation, as the most promising in the short term. (However, this is unlikely to be effective without real collective bargaining as well.) The port market mediation commissions would be established in each province to anticipate problems that might develop in the port markets, particularly with regard to alleviating glut situations and other problems associated with the seasonal flow of fish deliveries, and to seek solutions through the mediation of negotiations between and among fishermen and processors. Over the longer haul, other options should also be pursued as appropriate under the circumstances in each province. They could include port market authorities in each province, which would buy all fish from fishermen at negotiated or prescribed prices and then sell the fish to processors.

We are also strongly of the view that collective bargaining should be encouraged — but not, as in the past, through public funding of fishermen's organizations. This kind of funding simply promotes organizational fragmentation and may preclude the emergence of effective leadership. Any doubt that may exist that collective bargaining is contrary to the federal Combines Investigation Act should be removed when new competition legislation is introduced.

Finally, the Task Force has concerns about collective agreements that contain fish prices that apply uniformly throughout the contract area. This uniformity works to the detriment of those fishermen who enjoy competitive advantages such as delivery direct to plants and to the detriment of those plants with competitive advantages because of their proximity to transportation facilities to get their products to markets.

The uniformity of contract prices throughout the contract period is also of concern to the Task Force. We would urge that unions and processor associations examine the feasibility of negotiating prices that vary throughout the year so as to provide incentives for fishermen to deliver fish in the 'shoulder seasons', thereby using the collective bargaining mechanism to attack the seasonality problem facing the industry. In Iceland and Norway, for example, prices are negotiated quarterly.

16. Improving Fish Plant Profitability

In business, the earning of profit is something more than an incident of success. It is an essential condition of success. It is an essential condition of success because the continued absence of profit itself spells failure.

Justice Louis D. Brandeis

The Problem

Average operating profits in the processing sector are too low, but the real selling price (net of inflation) of most east coast fish products is not expected to increase in the medium term. The industry must therefore reduce its costs and produce more high-value products.

Cost reductions cannot be achieved at the expense of reasonable earnings for fishermen, whose incomes on average are barely adequate in many areas. Neither can cost-cutting be at the expense of plant wage rates which, relative to inflation and to other food products industry wages, are not excessive. Ways must therefore be found to increase operating efficiency so that average gross profit margins on the order of at least 17 to 19 per cent of sales value can be achieved.

While responsibility for improving plant efficiency must rest with plant managers, the policy issue is to design government policies and programs that would encourage improvements in plant efficiency.

Recommendations

25. Provincial governments should give high priority to up-grading the skills of fish plant managers and supervisors through vocational, technical and marketing training. Every effort should be made to foster a professional image of careers in the industry and to ensure that educational programs for management have a practical orientation and high performance standards.
26. The federal government should continue to re-orient its regional development assistance programming for the fish processing industry away from plant construction and expansion and toward improving the efficiency of assets now in place. Capital investment aimed at increasing productivity and obtaining higher yields should be supported.
27. The manpower training program of Employment and Immigration Canada should ensure that assistance is adequate to encourage training for skilled positions in fish plants until such time as the industry is financially able to take full responsibility itself.
28. Future federal assistance to fish plants should require, as a pre-condition, that a productivity improvement study be carried out and a program of improvement be agreed to by plant management.
29. Fish processors and the federal government should explore all ways to encourage research and development in the industry and make every attempt to involve agencies such as the National Research Council in this endeavour.
30. The fish processing industry should develop a standard format for financial and cost accounting data so that common systems can be developed and performance standards established that are comparable throughout the industry. The federal government should be prepared to assist financially the development by industry of the necessary standards and systems.
31. The compilation and analysis of industry financial statements begun for the Task Force should be continued each year through co-operation between the

Fisheries Council of Canada and the Department of Fisheries and Oceans. The federal and provincial governments and the processing industry should share the cost of the project each year.

Comment

The efficient operation of a plant depends much more on strategic and day to day business decisions than on government programs aimed at the plant itself. The effects of government policy are more substantial in indirect, but nevertheless crucially important, ways including resource management, licensing, quota allocations, mesh size regulation, quality improvement programs, infrastructure support, unemployment insurance and so on.

The fact that many activities directly related to fish processing fall within provincial jurisdiction also limits the scope of initiatives that can be undertaken by the federal government without provincial concurrence.

The recommendations in this chapter complement those elsewhere in the Report that deal with problems we identified in the structure of the industry — quality, regulations, marketing, over-capacity. The commentary that follows summarizes the findings and views of the Task Force on the factors within the processing plants that appear to be most important in determining operating performance. The foregoing recommendations (23 through 31), as well as many others in the Report, address either specifically or generally the crucial factors in operating profitability.

The Task Force identified five principal determinants of fish plant operating performance — raw material quality; the size of fish; management in the plant; daily and seasonal variations in fish supply; and the harvesting method. With the exception of management, these factors are addressed in other chapters.

Operating profit

Operating profit (or what we referred to in Chapter 5 as 'gross margin') lies at the heart of any business. It provides the funds to pay selling expenses, capital costs, taxes and a return to shareholders. It was shown in Chapter 5 that net profit in the fish processing industry was eroded after 1978, first at the operating level.

The crisis in the fishery was, and is, rooted in the operating profit which, at an average of 12 per cent of sales in 1981, is completely inadequate to support the industry. It was suggested in Chapter 5 that the industry requires a gross margin in the neighbourhood of at least 18 per cent of sales averaged over good and bad years. Trawler owners must have somewhat higher margins to cover their higher capital investments.

Operating profit is equal to sales revenue less direct manufacturing costs. These costs include raw material, direct labour to handle and process the fish from wharf to freezer, materials used directly in processing (packaging, additives), and manufacturing overhead expenses (maintenance, utilities, rentals, etc.). The most significant cost factors are raw material and direct labour, which constitute at least 75 per cent of operating cost. Raw material typically costs a bit less than twice the cost of direct labour in a groundfish plant. Management can do relatively little to reduce packaging material costs or the fixed component of manufacturing overhead. Consequently over 90 per cent of the manageable cost in a plant is likely to be composed of raw material and direct labour costs.

Yield and productivity

The cost of raw material in a finished product depends on the cost of the whole fish as landed at the plant door and the yield of saleable flesh that is produced from it. Inside the plant, yield is the main factor in raw material cost that management can influence. Higher yields give more end product per pound of fish purchased from fishermen (see Glossary under *yield*).

The other major cost factor in the plant, direct labour, depends on the hourly rate of pay and worker productivity (pounds of product output per hour). Of these two factors, productivity is far more subject to management influence than is the effective wage rate, although managers are obviously responsible for the control of overtime and the supervision of incentive systems, as well as for the negotiation of affordable wage agreements.

It follows from these general considerations that the keys to improving plant operating profitability lie in increasing yield and labour productivity. There are also other factors that management can influence, but the largest potential payoffs are to be found in better yields and higher productivity, because the manageable component of plant cost is most sensitive to these factors.

For a given species and product, the yield of saleable product from the raw fish depends on the quality of the incoming fish, the rate of throughput and plant management. Yield does not depend significantly on fish size within a reasonable range. In the trade-off between labour productivity and yield (that is, the faster one cuts and trims, generally the lower the yield), the optimal combination will ultimately be determined by the ratio of fish cost to plant wage rates.

Improved fish quality has an important effect on yield. Loss from spoilage is minimized, firm-textured fish is easier to cut cleanly, and trimming losses are reduced. Estimates of yield gain as a result of improved quality will vary, but average improvements of two to five percentage points in cod might be achieved depending on base performance. A yield improvement of three percentage points — from 33 to 36 per cent, for example — reduces the raw fish component of product cost by over eight per cent and increases product volume by nine per cent.

To improve labour productivity, the competence of management is of central importance. Productivity depends as well on fish quality and on the size and uniformity of the fish. A production line worker's movements do not vary to any great extent with the size of the fish being handled, within normal limits. A six-pound cod can be processed almost as quickly as a three-pound cod, but the product weight is double. Within reasonably wide operating limits, direct labour productivity will be strictly proportional to average fish size. Therefore, an increase in the average size of landed fish can have a crucial effect on labour costs.

Better raw material quality also contributes to higher productivity by streamlining the cutting and fillet trimming operations. It is difficult to cut a good fillet from a soft fish. Ragged fillets require careful trimming. Soft fish makes removal of bones more difficult and uncertain. The removal of parasites in the flesh also slows throughput. And because of these quality impediments, quality-control procedures must be more thorough and time-consuming.

As a general rule, productivity will be adversely affected by large variations, either daily or seasonal, in raw material supply. In the latter case, the skill of the work force declines in the idle period, and skills must be resharpened each spring. Job attachment in seasonal work may also be low, resulting in high rates of turnover and lower productivity during the learning period.

Large daily swings in production, which typically occur at the peak of the inshore season or when trawler arrivals are not synchronized, impede productivity by disrupting the rhythm of work and making production scheduling more difficult. If workers are called in anticipation of a large volume that doesn't materialize, paid hours will be wasted.

It is management's responsibility to ensure that productivity is improved by maintaining a good working environment, by providing training and supervision, by opti-

mal production scheduling, and by adhering to well-negotiated contracts. There continue to be serious failings in all these areas.

Studies have repeatedly identified lagging productivity as one of the most serious and intractable problems in the industry. Most recently, the Royal Commission to Inquire into the Inshore Fishery of Newfoundland and Labrador (Phase II and III Report) claimed that productivity in Newfoundland plants was, on average, only about 43 per cent of a generally accepted standard based on industrial engineering time and motion methods. A similar study, cited by the Royal Commission, was conducted in 1968 by Inbucon consultants; it reported only a slightly higher level of productivity of 48 per cent. These reports on productivity are discouraging in themselves, but even more discouraging is that despite having been identified as a major problem 15 years ago, productivity apparently has not improved. Indeed, productivity levels may have deteriorated. If this situation cannot be substantially improved, there is no prospect of achieving sustained profitability.

Better raw material quality, increased average fish size, and a more controlled and uniform supply of fish are needed and are achievable. But management must be prepared to diagnose productivity impediments systematically and to adopt industrial engineering techniques to overcome them. Government programs might be designed to assist this activity so that their benefits can become more widely known. Nevertheless, the primary responsibility and initiative rest with processors themselves.

The effects of higher productivity on operating costs are potentially great. A 20 per cent improvement in average industry throughput per man-hour would reduce direct labour costs by almost 17 per cent. This in turn would reduce total operating costs by roughly 4 to 5 per cent, apart from any associated reduction in manufacturing overhead. This improvement is not to be achieved just by requiring individual workers to work more quickly (this can be accomplished through incentive or wage bonus schemes) but rather through policies to reduce the impediments to productivity just identified.

Management's role

In its full Report, the Task Force showed that with relatively modest and achievable improvements in yield and productivity throughout the groundfish industry, it would be possible to achieve the gross margin targets identified in Chapter 5 without assuming any real increase (after inflation) in average final market prices. This scenario also provides for increased prices to fishermen for higher quality raw material and higher real wages to plant workers to give them a share of the benefits of greater productivity. Achieving the necessary performance level depends upon several factors in addition to improved management — enhanced raw material quality, larger fish, less variation in the supply of fish to plants and improved harvesting methods. All these factors have been addressed by the Task Force. The recommendations in other chapters of this Report thus have important implications for processing sector viability because of their effect on the factors underlying higher yields and productivity.

Nevertheless, only good plant management can take advantage of the potential offered by these factors for improving profitability. This is why in this chapter we focus on recommendations that will contribute to enhancing the skills and quality of plant management.

The systematic improvement of management quality is not easily addressed by government policy and programs. Training programs, seminars and printed information are probably cost-effective as aids, but they can never get to the root of the problem. A policy environment that allows successful management to be duly rewarded and poor management to suffer the full consequences is probably the most constructive action government can take. Well-intentioned programs that subsidize new capital

assets or encourage people to undertake what is already in their best interest may have the perverse effect of undermining management in the longer run and fostering excessive dependence on government.

Nevertheless, the fishery finds itself once more without the resources to undertake essential projects, let alone to invest in the management improvements that are the key to future success. There is also widespread reluctance in many processing companies to commit resources for such things as the development of cost accounting systems, industrial engineering studies and supervisor training. Narrow and uncertain margins in the industry are partly to blame. But there is also a mistrust of analytical methods and systems. This is perhaps not surprising in an industry with little tradition of professional management. But these prejudices must be overcome if management is to fulfill its part of the responsibility for restoring profitability to the industry.

The specific recommendations of the Task Force are self-explanatory: improved fish plant profitability can only come about with improved plant management, and the federal and provincial governments can only help in bringing this about indirectly — through training programs, by encouraging research, and by collecting and disseminating information useful to plant managers.

17. Marketing

*The codfish lays ten thousand eggs,
The homely hen lays one.
The codfish never cackles
To tell you what she's done.
And so we scorn the codfish,
While the humble hen we prize,
Which only goes to show you
That it pays to advertise.*

Anon.

The Problem

In Chapter 6 we reviewed the issues surrounding markets, the organization of Canadian marketing and the supply and demand forecasts for Canadian fish products. We concluded that in order to provide profitable outlets for the growth in Canada's Atlantic groundfish stocks it will be necessary to:

- expand the per capita consumption of premium groundfish species relative to competing proteins in the North American market segments supplied by Canada;
- expand the number of market segments and geographic markets served;
- improve the consistency, availability and quality of Atlantic groundfish and herring, as this is a prerequisite to expanding per capita consumption and the number of market segments served;
- ensure that processors and exporters have adequate financial resources to enable them to undertake larger investments in marketing;
- improve on a continuing basis the awareness and sensitivity of fishermen, processors, federal and provincial governments to the needs of the final product marketplace; and
- provide for better co-operation and co-ordination of market planning and sales efforts to ensure the maximum effectiveness of marketing investments, to strengthen the relationship between the final market and fisheries management, and, as stocks grow, to develop and implement initiatives that will prevent over-supplying the market segments currently occupied by Canadian products.

The policy issue is what government policies or programs are required to achieve the results just listed.

Recommendations

32. License all processors of Atlantic groundfish and herring, and exporters of whole or dressed fish, as a condition of selling their products internationally and inter-provincially.
33. Require that, as final product grade standards are defined, licence holders grade products that are exported or sold inter-provincially.
34. Establish an Atlantic Fisheries Marketing Commission. This Commission would in turn create, initially, three Product Marketing Councils for (a) fresh and frozen groundfish, (b) salted and dried groundfish, and (c) herring.
35. Each export licence holder should automatically be a member of the appropriate Product Marketing Council. An Executive Committee of each Council should be composed of all exporters, or consortia of exporters, accounting for more than a specified percentage of sales, say 10 per cent. The chairman of a Council should be selected by the federal government from a short list of nominees submitted by the members of the Council. Each Council would:

- a) undertake such analysis and activity as is necessary to establish marketing strategies and market development priorities for their products;
 - b) identify market development and sales opportunities that cannot be readily addressed by the Council members individually, and encourage and co-ordinate such initiatives as may be appropriate to exploit the opportunities;
 - c) plan and undertake generic promotion;
 - d) make recommendations to the Minister of Fisheries and Oceans on all matters affecting final product grade standards and labelling, including standards, practical enforcement procedures and penalties, and reporting conditions;
 - e) make recommendations to the Minister of Fisheries and Oceans on any terms, conditions and eligibility criteria that may be associated with export licences for the Council's products; and
 - f) prepare reports and make recommendations to the Minister of Fisheries and Oceans on (i) the implications of the marketing strategy for final product grade standards and the promotion plan; and (ii) the implications of the marketing strategy for in-plant handling of fish, dockside grade standards and fishery management policies and regulations.
36. The Atlantic Fisheries Marketing Commission should be composed of members from the Product Marketing Councils, provincial governments, fishermen's and processors' organizations and the federal government. The federal government would appoint a chairman from a short list of nominees submitted by the members of the Commission. The Commission should have an Executive Committee of about ten members, including the chairmen of the Product Marketing Councils and representatives, elected annually, of the other member groups. The Commission would be supported by a secretariat, headed by an executive director. The Commission would:
- a) provide secretariat and analytic services to the Product Marketing Councils;
 - b) co-ordinate activities among the Product Marketing Councils, especially regarding conflicts in marketing strategies between products;
 - c) advise the Minister of Fisheries and Oceans on the requirements for fisheries management and development policies that will promote more effective marketing;
 - d) on the basis of the generic promotion proposals from the Product Marketing Councils, recommend to the government the rate of assessment (by product) of a levy on domestically produced products and competing imports to finance the promotion program;
 - e) seek provincial support for generic promotion and co-ordinate the support of governments for such promotion;
 - f) assign promotion funds to the Product Marketing Councils; and
 - g) advise the Minister of Fisheries and Oceans on the desirability and the terms and conditions of all proposed direct sales to foreign fishing vessels (over-the-side and over-the-wharf) and arrange those sales that may be assigned to it by the Minister.
37. Enact legislation to give all necessary legal status and authority to the Atlantic Fisheries Marketing Commission.

38. Commit federal funding for a five-year campaign of generic promotion of Atlantic groundfish and herring products in North America and Europe to be carried out by the Product Marketing Councils. The total federal contribution in 1982 dollars (of constant purchasing power) would be \$25 million phased over five years. Thereafter, the federal funds would return to current levels of about \$400,000. The industry levy (proposed in recommendation 36) would replace federal funds as processors become more profitable. During at least the initial five-year period, the Atlantic provinces will be invited to make a contribution and to ensure that any promotion activities undertaken by them will be co-ordinated with the plans of the Commission.
39. Provide up to \$25 million for the food component of the Program for Export Market Development (PEMD) to be earmarked for Atlantic groundfish and herring exporters. The spending of these funds should be treated as a 'challenge grant', being conditional upon development of satisfactory promotional and marketing programs by the industry. Perhaps 80 per cent of these funds would be recoverable through the normal repayment processes of PEMD. The money would be disbursed over eight years for (a) assistance to exporters to diversify commercial markets; and (b) for the development of the marketing capability of Atlantic groundfish and herring exporters.

Comment

Market analysis has shown that the world supply of groundfish will increase by about 15 per cent between 1981 and 1987. Canadians will have approximately 25 per cent of that growth and effectively all the growth in cod.

Canadian sales of groundfish and herring are heavily concentrated in North America and Europe. Within these geographic markets Canada provides a majority of the supplies of its species to the middle quality and moderately price-sensitive market segments. The growth in world and Canadian supplies and the fact that Canada holds a large share of its major market segments make it clear that there must be a systematic diversification and broadening of the Canadian market base. Failure to do so will result in over-supplying existing Canadian market segments and lowering the price the industry gets for its products.

Quality and consistency

Up-grading the quality of a substantial proportion of Atlantic Canadian products will enable the industry to reduce its exposure to competition from growing foreign supplies of less desirable groundfish and capture more of the forecast growth in the consumption of fresh fish and premium frozen fillets. More consistent, higher quality products will also be important in expanding the number of people who eat groundfish and the frequency with which they eat it. Improved consistency of final product quality will also be needed to meet the requirements of large multi-national food conglomerates, which are increasing their presence in the retail products market. One of the important side benefits of enhanced quality is that trimmings from the higher priced products, or lower priced standard quality landed fish, can be used for lower priced cod block products that can compete on a price basis with Pacific pollock and South American hake.

The central requirement for expanding export sales is thus to improve final product quality and consistency in order to be able to serve a wider range of markets, win a large share of the forecast growth in markets for premium fresh and frozen products, and increase the per capita consumption of groundfish and herring.

Improving the quality and consistency of Atlantic Canadian products in all phases of the industry, from harvesting to final product, is therefore critical to the industry's future.

For over a decade, prices paid in the U.S. market for premium quality Icelandic frozen cod fillets have been 15 to 30 per cent higher than those paid for average quality Canadian fillets. For the reasons discussed in Chapter 14, the Canadian harvesting and processing sectors have faced internal barriers to quality improvement that have prevented Canada from supplying the large volumes of high quality products demanded by franchised and white tablecloth restaurants. The financial incentives provided by these users have not been adequate to cause the Canadian industry as a whole to focus on top quality. Increasing the financial incentives would require either large government subsidies to promote consistent quality or changes to the Fish Inspection Act to increase and restructure fines in order to create strong disincentives to produce inconsistent quality. Enforcement based on fines may run the risk that the fines will be treated as a cost of business, and the potential for change will be blunted. In addition, the procedures for imposing fines can involve time-consuming and expensive legal processes.

Final product quality regulations administered by the Minister of Fisheries and Oceans can overcome the problems if the regulations are based on ministerial authority to remove a plant's right to sell products for export or in other provinces. This is why the Task Force has recommended the licensing of exporters.

Promotion and advertising

Promotion and advertising of Canadian groundfish products have been underfunded. This has arisen in part from the nature of the Canadian groundfish industry, in which a great deal of the production is of nearly identical commodity products such as cod blocks and five-pound frozen fillets. There is little to distinguish the commodity products of one processor from those of another. In the markets for such commodity products, the benefits of any advertising by one processor will be shared by competitors producing similar items. Thus, there is no incentive to advertise. Other industries in this position — the dairy industry, for example — do what is called 'generic' advertising.

Unfortunately, the Atlantic groundfish and herring industries have not developed an institution that would allow them to manage a promotion campaign or collect funds from all those who would benefit from such a campaign. The combined effect of the Task Force recommendation on generic promotion and final product grading should expand per capita consumption of groundfish and herring in North America in Canada's market niches.

Even if the proposed generic promotion and re-orientation of the industry toward higher quality are successful, competition from the world's growing supply of groundfish and competing proteins (poultry, for example) is expected to keep average prices from rising in real terms over the next five years. Therefore, efficiency improvements leading to cost reductions will be essential if financial health in the harvesting and processing sectors is to be achieved.

Geographic market diversification will be necessary over the next five years. Several co-ordinated initiatives will be needed. First, trade barriers in foreign markets must be attacked in the short run by actively defending Canada's rights under GATT. In the medium term, Canada must make trade liberalization in fish products a major priority in future GATT negotiations.

The second thrust must be expanded investment in marketing. More joint ventures between Canadian and foreign firms seem to offer the best possibilities for overcoming trade barriers. Although the industry has made substantial progress since 1977 in expanding its sales and marketing efforts overseas, the priority given market diversification for Atlantic groundfish and herring in the past, in both the public and private sectors, has not been high.

Marketing effectiveness

The present financial difficulties of the processing sector make it unlikely that it will have adequate financial resources for the risky investments now needed to market increases in groundfish supplies. The Task Force recommendations for a federal financial commitment to the Program for Export Market Development and generic promotion are intended to address this financial constraint.

The limited past experience with generic promotion suggests the preconditions for success: a stable multi-year budget and planning capability, and a commitment to the promotion program by suppliers, including long-term follow-through. Maximum bang for the promotional buck in terms of increasing sales depends on creating institutions that can respond effectively to these two problems.

The proposed Atlantic Fisheries Marketing Commission (AFMC) and its Product Marketing Councils provide a forum in which these decisions can be taken within the context of a coherent marketing plan. The AFMC will also be in a position to ensure that the regulatory approach to final product grading remains relevant and is both strategically wise and flexible.

More generally, the Task Force is concerned that the relevance of its individual proposals for addressing problems in the final market will inevitably fade with time and changing circumstances. There is a requirement for a new institution that will strengthen the role of marketing and the ability of marketers to influence the production and harvesting sectors, governments, and the relationship with their customers and competitors. Current problems that require institutional solutions are (1) strengthening the industry's ability to develop new markets at the fringe of present experience in the less developed countries and East Bloc nations; and (2) ensuring equitable use of over-the-side sales where there is inadequate processing capacity or a lack of market interest in a particular species.

To be effective and relevant, marketing must be the key management function that synchronizes the various activities of the business and co-ordinates supply with demand. In short, the industry must become primarily market-driven, not supply-driven as it is now.

To be effective in this task, marketers need a precise definition of their objectives. They must always be aware of buyers' needs rather than focusing on the industry's preferences. Effective marketing must be buyer-oriented, not seller-oriented. The best marketing strategies are doomed to failure if the harvesting and processing sectors cannot deliver the goods and services that marketers have promised.

Several approaches have been suggested for increasing government influence on the marketing activities of the industry. These include single-desk marketing, a state-owned marketing company, and a government umbrella organization under which consolidation of marketing by the smaller processors could occur. The disadvantages — bureaucratic rigidities, reduced innovation and entrepreneurial drive in the private sector, a more limited ability to serve the wide range of specialty markets addressed by small Canadian firms, and the active resistance of many processors to forced consolidation of marketing — have led the Task Force to conclude that the costs of compulsory consolidation outweigh the potential benefits.

Not as readily dismissed is the desirability of further reducing the number of exporters and creating some means for better co-ordination of broad marketing strategies.

The Atlantic Fisheries Marketing Commission is recommended because it provides the maximum opportunity for developing private sector marketing ability and for co-ordinating market planning and promotion with minimum government involvement.

The industry will be free to develop its marketing strategies and to execute plans with government support but not government coercion.

The AFMC provides a co-operative forum and will be largely, but not totally, in the hands of industry marketers. The balance of representation from the processing sector, fishermen and the provinces would ensure the education and participation of all sectors of the industry in marketing activities. The AFMC will also strengthen the influence of marketers on all the other elements of the fishery. Because this influence is long overdue, and in light of the key advisory role proposed for the AFMC in several areas (including direct sales, final product grading, exporter licensing and generic promotion), it is essential that implementation of the AFMC and the Product Marketing Councils be accomplished as soon as possible.

Concerns about expanding the role of government in the marketing of groundfish products are rejected. Marketing must be strengthened. The proposals of the Task Force support marketers and place responsibility for the future of the industry more firmly in their hands than at any time in the industry's history.

The Task Force has not recommended a direct selling role for the AFMC or an expanded sales role for existing government agencies such as the Fisheries Prices Support Board. We have concluded that the least expensive and most effective method of expanding Atlantic groundfish and herring sales is to co-operate with and reinforce existing private sector marketing organizations. The creation of an additional selling organization would serve only to fragment present efforts and disrupt the efforts of those in the present system. Moreover, such an organization could always be established if the recommended changes do not prove sufficiently effective.

18. Fishermen's Incomes

Fishermen are not poor because they are fishermen. They are fishermen because they are poor.

W.C. MacKenzie

There is no way I could fish if my wife didn't hold a full-time job.

Northumberland Strait full-time fisherman, at a Task Force meeting.

The Problem

Incomes earned from fishing activity remain low for a majority of full-time fishermen. While earnings by other members of fishermen's households raise total income levels considerably, a significant proportion of the families of full-time and part-time fishermen have incomes near or below the poverty line for rural Canada. Regular supplementation of incomes from non-fishing sources is still necessary until adequate, stable incomes can be generated from fishing activity.

The current system of unemployment insurance (UI) is the only program providing significant income stability and supplementary revenues for fishermen. Some administrative difficulties, economic disincentives and gaps in coverage for self-employed fishermen exist in the UI program. These difficulties can be alleviated as a short-term measure, but long-term program changes should also be considered. Alternative programs would be preferable to UI if they could achieve specific goals that would help to improve the economic viability of the fishery (increased productivity, enhanced quality, reduced seasonality) while also achieving socio-economic goals such as community maintenance and economic development.

The policy issue is what new or modified policies or programs are required to improve fishermen's incomes.

Fishermen's income problems also affect capital accumulation and investment. Fishing enterprises (each enterprise being made up of an individual fisherman's investment in vessels, gear, shore facilities and operating capital) are facing major difficulties in meeting debt obligations. This aspect of fishermen's financial problems is examined separately in Chapter 19.

Recommendations

40. Develop a production bonus system to supplement fishermen's incomes by rewarding desirable fishing practices. This system would permit fishermen to earn cash credits, payable in the off-season, based on such factors as the gross value of their landings, fish quality, season of catch, or gear used. It would be federally funded, with initial pilot testing during the 1985 fishing season.
41. Develop a gross income stabilization plan to smooth out the high and low points in individual gross revenues over a rolling five-year period. This plan would be based on participation by all fishermen, with funding from their contributions and from the federal government. Detailed analysis should enable a pilot program to be tested in 1985.
42. In the short term, as a transition measure, request that the Canada Employment and Immigration Commission amend the regulations governing the fishermen's unemployment insurance program to provide benefit entitlement based on the best 10 weeks fished for fishermen who fish at least 15 weeks. Other changes in regulations should include (a) greater flexibility in defining the 'fishing season'

to allow those who fish exclusively during the winter months to qualify for benefits; (b) restrictions on the entrance requirements to the UI program, so that persons who fish less than 6 weeks will not qualify for benefits under the fishermen's program; and (c) revision of rules to permit boat-building during the benefit period for personal commercial use. Rules determining the net insurable earnings of boat captains should also be reviewed.

43. Adopt a 'sunset' provision in the UI regulations for self-employed fishermen so that the entire program will no longer be in force after April 1, 1988, provided that the production bonus scheme (recommendation 40) and the income stabilization scheme (recommendation 41) can be implemented fully as replacements, with general approval from participants in the industry.
44. The data base on the economic situation of individuals, households, enterprises and communities involved in the fishery must be improved and maintained. A survey of household income and expenses of fishermen along the lines conducted by the Task Force should be repeated regularly. Similar surveys are required with respect to fish plant workers. The enterprise cost and earnings surveys of the Department of Fisheries and Oceans should be placed on a consistent statistical basis for all Atlantic areas, and further data must be collected on vessel financing and loan repayment costs. Data collected by the Task Force on small fishing communities should be refined and updated. These statistical activities are necessary to ensure that an adequate information base is at hand for monitoring the condition of the industry and for future policy studies at the micro and macro-economic levels.

Comment

A variety of structural and operational changes in the fishing industry, as recommended by the Task Force, will contribute to the long-term improvement of fishermen's incomes. Some examples of these changes stand out: improvements in the quality and consistency of the landed product should lead to quality-based price differentials being paid to fishermen; the improvement of marketing planning and operations should lead to a more stable industry and the opportunity for fishermen to receive higher prices; and changes in licensing policy to a quota licence system should result in lower capital and operating costs as the incentive to race for fish is reduced.

There is no automatic assurance that increases in the market value of fish products will be translated into increases in the prices paid for fish and hence increases in the incomes of fishermen. The achievement of the Task Force objective of a reasonable income for fishermen will rest in part on the collective ability of fishermen to obtain a fair share of the additional revenues generated through the sale of improved fish products. It will also rest on the willingness of buyers and processors in the industry to pass on these additional revenues to labour participants in the harvesting and processing sectors.

Reward quality

Our recommendation on the development of a production bonus scheme for income supplementation ties in with our broader goals of improving quality and reducing seasonality. The bonus proposal recognizes that income supplementation for fishermen will remain a feature of this industry for many years to come.

Linking supplementation payments to the achievement of industry goals can help improve efficiency without placing the burden of such changes on the backs of only the fishermen. Fairness and realism will be necessary in setting out the goals that would be rewarded through production bonus payments. To do this effectively we must recognize once again the need for fishermen and processors to negotiate collectively and agree mutually to abide by the results of such negotiations.

Stabilize incomes

An effective revenue stabilization program to mitigate the effects of natural factors such as poor weather, stock failure, or market price slumps would contribute significantly to the Task Force objective of attaining reasonable incomes for fishermen. However, we recognize that this program proposal will be difficult to implement.

Many factors have prevented the adoption of fishing revenue stabilization programs until now, including the lack of adequate local data on catches by species, the lack of effective supervision against abuse, and the extreme variability between different species, geographical areas and types of fishing gear. However, similar difficulties confronted the creation of agricultural crop insurance schemes in the past and these were overcome. We are therefore optimistic that an effective revenue stabilization program can be developed for the fishery.

Continuing the existing unemployment insurance program is a necessary measure. It is possible that a production bonus scheme, together with a revenue stabilization program will eventually eliminate the need for fishermen's unemployment insurance. This is purely speculative, however. Until experience is gained with the proposed new schemes, it will not be possible to assess whether UI for fishermen should continue. At present, the UI program must remain in place, and it should be improved by reducing irritants or disincentives that harm its effectiveness.

Modify regulations

The special unemployment insurance scheme for fishermen now has built-in disincentives and other gaps in coverage. The existing regulations provide for benefits based on average weekly catches and, as catches decline near the end of the season, average weekly catches also decline, thereby reducing the fisherman's benefit entitlement. Our proposal for the '10 best weeks' would remove the disincentive to stop fishing after the peak of the season, as a fisherman's entitlement would be based on his 10 best weeks of catches (provided he fished at least 15 weeks) and would not be affected by lower catches near the end of the season.

Under the existing fishermen's unemployment insurance regulations, fishermen whose fishing season is during the winter months are denied unemployment insurance coverage, as the qualifying period currently lies, by definition, between May and October.

Our other recommendations are of a more technical nature and concern the relationship between the fishermen's program and the general unemployment insurance program.

Household incomes

We have emphasized the significance of non-fishing incomes earned by members of fishermen's households. Many of these non-fishing jobs consist of work in fish processing plants. One-quarter of the population in the four Atlantic provinces lives in small fishing communities, more than half of which have single-sector economies that are dependent almost entirely on fishing and fish processing. The closure of a processing plant can well mean the closing of a entire community because fishing incomes alone are often not sufficient to support a family. Keeping open as many plants as possible is therefore important in order to meet the objectives of improving the income of fisherman's households and maximizing employment. However, as we have said repeatedly throughout the Report, plants should be kept open only if they can be made economically viable.

The predominant position that the fishing industry occupies in the economy and culture of Atlantic Canada is a source of strength from the standpoint of labour market development and regional economic expansion. Strong personal attachments to a community and to an industry increase the effectiveness of vocational training and skills development, while also enhancing the value of production investments that

require a stable work force. More attention should therefore be given to developing a strategy that focuses on generating in the Atlantic provinces as many industrial linkages to the fishing industry, in all its phases, as possible.

Number of fishermen

Some observers hold that the income problem in fishing is essentially one of too many fishermen chasing too few fish. This implies that reducing the number of fishermen would lead to greater per capita incomes for those who remain. There is some validity in this statement, which is one reason (though not the principal reason) why the Task Force recommended a system of quasi-property rights or quota licences in the fishery (see Chapter 10). However, a reduction in the number of fishermen will not in itself ensure that reasonable incomes will be earned by the remaining participants.

Reducing the number of part-timers, for example, will not have a substantial effect on the income levels of other fishermen because catches by part-time licence holders are low. As a group, they receive only 13 per cent of the total gross revenues generated by fishing. Therefore even if we could be certain that their current catches would be distributed uniformly among all full-timers, there will not be that much extra fish available for distribution.

A significant new income problem would also be created if the activities of part-time fishermen were severely restricted or if they were eliminated from the industry. Although most part-timers make their living outside the fishery, approximately 25 per cent of part-time licence holders earn fishing incomes on a level similar to average full-timer incomes. From a social and community standpoint, it would be essential to show how those part-timers whose incomes depend significantly on fishing would make up for the loss of fishing revenues before their ability to earn such revenues could be restricted in the future.

If a reduction were to occur in the number of full-time fishermen, it would only have a positive effect on general income levels if the extra catch were distributed among the remaining fishermen in an appropriate manner. The reduction would have little effect on incomes if the additional catch were taken mainly by large offshore vessels or by individual highliners who are already earning reasonable incomes. In other words, the problem of low incomes will not be solved simply by reducing the number of fishermen. Solutions must be linked to fair distribution of the catch among current (and future) participants and to the payment of adequate prices to these participants.

The Task Force does not believe that income supplementation or income stabilization schemes intended for full-time fishermen should also be extended to part-time licence holders. Limits must be set on the cost of such schemes, and they should not be used to encourage the entry of more participants to the industry.

One important measure of reasonable income for fishermen is whether revenues will be sufficient to repay previous capital loans and to accumulate sufficient savings for new investments in the fishery. Recent indications are that the ability of fishermen to obtain credit and make capital investments (in new vessels, for example) is deteriorating as a consequence of the poor overall financial condition of the industry. A credit squeeze on fishermen is occurring through the tightening of loan and repayment provisions imposed by provincial loan boards, and through the effects of the rapid increase in costs for vessels and gear. This credit squeeze worsens the already significant effect of low incomes on the capitalization of fishing enterprises. The problem of capital investment for fishermen is examined further in Chapter 19.

In summary, the income problem for fishermen is two-sided. Inadequate revenues lead to inadequate household incomes. Households therefore become dependent on transfer payments and on secondary employment to make ends meet. Inadequate revenues also result in inadequate capital accumulation or savings. Fishing enterprises therefore become dependent on government subsidies and loans to invest in vessels, and on working capital advances from processors to 'gear up'.

Inadequate revenues are the linch-pin in the dependency trap that ensnares a great portion of Canada's east coast fishermen. The recommendations in this chapter are designed to attack this fundamental problem, through UI changes in the short term and new production bonus and income stabilization schemes in the long run. Recommendations in other chapters deal less directly with the income problem by advocating policies to improve the economic performance of the entire fishing industry.

19. Financial Assistance

The business leaders who clamour for government to let business alone would die of fright if any government took them at their word.

Eugene Forsey

A few years ago, I was longlining for codfish and landing the gutted fish for 14 cents a pound. The government announced a subsidy of 2 cents per pound on gutted fish to be paid to the fishermen. The price of fish immediately dropped to 12 cents per pound. Who got the subsidy?

The government, several years ago, announced a subsidy to be paid to fishermen which was 35 per cent of the cost of new boat construction. The price of boats immediately went up 50 per cent. Who got the subsidy?

The government offered a 50 per cent subsidy to anyone who would buy a fibreglass box for carrying fish. Before and after the period of the subsidy the boxes were selling for \$350 each; during the subsidy period, they sold for \$650 each. Who got the subsidy?

Gregory R. Thompson, a New Brunswick fisherman, in a brief to the Task Force.

The Problem

A combination of an historically weak financial structure, severe losses in 1980 and 1981, and excessive borrowing to finance expansion and to cover losses has left the processing sector in an exceptionally weak financial position. Although the problem is industry-wide, it is most severe among the offshore groundfish processors, in particular the large companies with extensive operations in Newfoundland. Unless financial assistance is made available, a number of major companies will go bankrupt.

Fishermen are also having financial problems. In some cases their incomes have not been sufficient to repay their vessel loans, to acquire new gear, or to maintain adequate levels of working capital.

Replacement of both large and small vessels by some of the present owners will be difficult in view of their poor financial condition. Dependence on credit from either provincial loan boards or processors will remain the major factor in the capital financing of fishermen.

The policy issue is whether special new programs should be established to provide financial assistance to fishermen and/or processing companies.

Recommendations

45. Do not establish a new general program of financial assistance for either fishermen or processors.
46. Do not provide direct special assistance for vessel acquisition or replacement, but ensure that vessels can be purchased from the most economical source, unhindered by tariff or other barriers.
47. Commend provincial loan boards for their efforts to continue to provide adequate capital funding for vessel purchase and repairs on terms appropriate to the financial conditions of fishermen. Initiate consultations between the federal and provincial governments on developing a uniform set of financial assistance policies and a possible new form of lending institution for working capital.

Comment

The financial crisis in the processing sector was the problem that precipitated the latest round of special government attention to the fishery and led to the establishment of the Task Force. This Report makes clear that the fishery has a multitude of interlocking problems crying out for solution. The most important of these in the immediate future is the near collapse of several major processors with extensive operations in Newfoundland. If they were forced out of business, the effect on fishermen, plant workers, communities, indeed the Atlantic economy, would be devastating.

Restoring the financial health of those processors in the worst difficulty will require a large injection of new equity capital. Additional debt at market rates of interest will not solve the problem, as the companies are unable at this time to support the burden of interest and principal payments on their existing debts. It seems inevitable that the dead-weight debt burden of some processors will have to be reduced by having financial institutions write off bad debts. In combination with new capital, this should allow some companies to become viable.

The new capital may have to be provided by governments, either directly or via guarantees of loans at appropriately low rates of interest. Attracting equity capital from the Canadian private sector at this time will be difficult in light of the recent performance of the fishery, although every effort should be made to encourage such investment. Foreign investors, particularly those already in the fishing business, have continued to express interest in investing in the industry, presumably because they are more concerned about a secure supply of fish than about immediate profits. These investors may have to be allowed to invest in the industry if it is to become viable (see *Comment* section in Chapter 9).

However, rebuilding the finances of the processors will be futile unless, once re-financed, they can achieve profitable operations. Continued losses will simply dissipate the new capital and drive the companies back to the brink of bankruptcy. Some reduction of the over-capacity in the industry is inevitable. Furthermore, the new investment in plant facilities made since 1977 must be optimally employed before further construction takes place.

A number of plants appear unlikely to be profitable under any foreseeable circumstances and they will have to be closed. Some multi-plant operators own plants that may be individually viable but cannot support the overhead of the parent company. Mergers appear to be essential to reduce overhead, despite the fact that recent history (as shown by the data in Chapter 5) has demonstrated that sheer size is not the key to profitability in the fishery. On the other hand, the problems of the large companies have not been due solely to size per se. A number of complex factors have combined to create the crisis, including the severe slump in the frozen groundfish business on which these companies are particularly dependent, the large investments undertaken by them since 1977, and the difficulties they have encountered in creating the management systems needed to cope with very rapid growth in their scale of activity.

An essential element in restoring profitability must be a stable regulatory environment in which to plan for the future. A step in this direction was made this year with the establishment of enterprise allocations for the four major trawler companies; this has allowed more efficient fleet operations. What is required, however, are quota allocations extending at least five years into the future to allow a reasonable time horizon for the allocation of scarce capital and manpower and to generate a reasonable investment climate.

There is an understandable reluctance in government to establish programs to assist specific industries. They are costly to start with and tend to become more so over

time as reasons are found to expand them. Nonetheless, they exist because some industries would disappear without them, with serious economic and social consequences.

In the case of the fishery, most of the companies find their profits and finances under pressure, but their general condition does not differ greatly from that of many Canadian industries that have felt the effects of the recession and high interest rates. The Task Force has therefore concluded that any ongoing program to provide financial assistance specifically to the fishery cannot be justified at this time.

On the other hand, the Task Force is engaged in negotiations that are expected to lead to a restructuring of those offshore processing companies that are virtually insolvent at the present time. The restructuring of the assets of these companies into a viable company (or companies) may only be able to be achieved with an infusion of government funds, most likely by way of government equity. But this assistance should be a one-time effort only, after which the resulting business should stand on its own, including the ability to finance new trawler purchases without special government assistance. The anticipated restructuring will do much to correct the weak financial condition of the processing sector apparent in the industry statistics presented in Chapter 5.

Similarly, although fishermen are feeling the effects of the same conditions affecting processors, they are not in a significantly worse position than comparable groups like farmers. They are not prosperous at this time, but skillful operators who have avoided burdening themselves with excessive debt will emerge intact from the latest crisis. Therefore a special federal program does not appear to be justified, particularly in light of the fact that a price subsidy mechanism, the Fisheries Prices Support Board, already exists and can be used in extreme circumstances.

Part of our concern over the financing of fishing enterprises arises from inadequate knowledge of the extent of financial involvement by processors in the inshore ground-fish fleet. The fact that we do not know the degree to which processors — large and small — exert financial control over fishing vessels not registered in their names creates doubts in our minds as to who would actually benefit from any program of capital assistance to fishermen.

Control of processors over fishing enterprises can occur in the form of direct equity, through financing downpayments on vessels, or through making conditional sales agreements. These kinds of processor-fisherman deals, along with those related to the provision of working capital (for gear, bait, repairs, etc.), tie fishermen to individual processors, restricting the former's freedom to seek the best price in the port market, and making him vulnerable to adverse turns in the financial health of the processor. On the other hand, the arrangements between fishermen and processors are usually informal deals rather than legally binding contracts, so that there is a risk that a processor will be unable to recover his loan if a fisherman decides not to pay or to take his fish elsewhere.

With the 'independence' of the fisherman uncertain, any program of financial relief might simply make it possible for him to meet his obligations to his creditors, including the processors, without actually strengthening his 'bottom line' take-home earnings position. It could be argued that financial or capital assistance would at least forestall bankruptcy, but it is very difficult to be selective in helping those in need and at the same time be fair to those who are managing to stay afloat.

For all these reasons, the Task Force has concluded that no new programs of financial assistance should be put in place at this time.

Various long-term alternatives can be devised to reduce the problems of inadequate access by fishermen to investment and working capital. One solution may be the creation of a 'one-stop shopping' credit facility or a fishermen's bank, capitalized by the industry as a means of promoting savings. Such a bank could be operated on a compulsory deposit basis; fishermen would have to maintain a savings account over a period of time to obtain access to credit. Other alternatives might lie in the area of port market reform (see Chapter 15) or in greater provincial involvement in supplying working capital advances.

For the immediate future, however, it is difficult to see how fishermen's enterprises can be adequately capitalized without continued reasonable access to provincial loan board funding. Provincial governments have used the loan boards as the focus for their activity in the harvesting side of the fishery. Dependency on these boards by fishermen is real and understandable. Having created this dependency, a responsibility rests with the provinces to ensure that fishermen's borrowing requirements can be met.

20. The Herring Seine Fleet

History indicates that herring stocks . . . have been shown to be very unpredictable. They seem to run in cycles, showing strong year-classes for years, then, without too much warning, drastically decreasing to extremely low levels. This, of course, creates havoc with existing capacity, both harvesting and processing . . .

New Brunswick Fish Packers' Association, in a brief to the Task Force.

The Problem

The herring resource on the Atlantic coast is no longer able to support the purse seine fleet at its current size (63 vessels plus three licences from recently sunk vessels). The quotas in the Gulf and adjacent to Newfoundland have fallen to very low levels, and there is no prospect of supporting a seine fishery there in the foreseeable future. The total Atlantic fleet must be reduced by at least some 20 to 25 vessels so that the remainder can be viable.

The policy issue is how best to accomplish this reduction.

Recommendations

48. Implement immediately the assignment of transferable vessel quotas to seiners, with the initial allocation distributed on the basis of relative catches in the past three years. The program would be managed by a Board elected by current licence holders, with a federally appointed chairman.
49. Establish a five-year buy-back program for boat quotas funded by industry levies on domestic purchases and over-the-side sales. These quotas would be sold back to the remaining operators. As a starting point for discussion, a levy of \$10 per tonne for domestic purchases and \$25 per tonne for over-the-side sales is recommended. This, combined with fixed upper limits on over-the-side sales of 40 per cent of the seiner quota in 1983, declining to 20 per cent of the quota in 1987 (the last year of the program), would yield a total of almost \$5 million over the period for buy-back purposes. The buy-back program would be managed by the same Board that manages the herring enterprise quota system. Provision should be made to ensure that, by 1987, all seiners are equipped with approved refrigeration systems.
50. Establish stringent measures to prevent mis-reporting of landings — for example, by requiring landings to be made only in the presence of a fisheries officer and by suspending or cancelling licences for mis-reporting.
51. Undertake a strictly controlled program to determine the feasibility, from both the economic and management point of view, of launching a big-boat (seiner or trawler) fishery for mackerel.

Comment

In the present economic climate, we cannot see any justification for a publicly funded licence or quota buy-back program when other businesses in other sectors are going bankrupt without compensation. The only alternative we can see for the rationalization of the herring seine fleet is to introduce a system of transferable boat quotas — this despite the enforcement problems and the difficulties in controlling the extent of interest that individual processors could accumulate in the quotas. This can be augmented by a buy-back program for boat quotas funded by industry levies as described in recommendation 49. We feel that this approach is preferable to a free fishing regime, because those who sell out will get at least some compensation by

This approach is the same as the quasi-property rights (quota licences) system described in Chapter 10. Such a system need not allow for totally unrestricted trading in enterprise or boat quotas — indeed, for public policy reasons it may be desirable to restrict holdings of quotas so that no person, including processors, could own or have an interest in more than a fixed percentage of the TAC. The reason for this restriction would be to provide an adequate degree of port market competition so as to ensure reasonable prices to fishermen. Such a restriction might be very difficult to enforce, however, as processors could use third parties to circumvent the rules.

The nature of the rationalization will depend on initial allocations. In the past, boat quotas in the Bay of Fundy have been distributed on a uniform basis. If this were continued under a transferable boat quota regime, the big new boats (with high capital burdens) would not likely survive for very long, although there might be room for a few of them (those with refrigerated sea water equipment) to operate as collector vessels. If the initial allocation were more nearly based on catching capability, the older part of the fleet would have lower quotas and would soon be forced to drop out.

The initial allocations provide the opportunity for establishing a bias toward the kind of fleet ultimately desired. The Task Force sees the 'ideal' fleet as one comprising vessels in the 65 to 75-foot range, equipped with refrigerated sea water or equivalent features to ensure quality landings. Vessels of this size, with lower capital costs than the larger vessels (over 100 feet), are more likely to be viable business propositions.

Therefore the Task Force would favour a system whereby vessel quotas, for both the Bay of Fundy and the Gulf, were distributed on the basis of reported relative catches over the past three years, as we believe this will lead to development of the proper type of fleet fairly quickly and that it is an equitable or fair initial allocation under current circumstances.

Although the original proposal for a buy-back funded by levies on catches was advanced to us only with respect to the Bay of Fundy (as it was proposed to the Task Force in a joint submission by Southwest Seiners Ltd. and the Atlantic Fishermen's Herring Co-operative Limited), we feel that it should apply to Gulf-based seiners as well, for the following reasons:

1. Herring licences were originally issued on an Atlantic-wide basis, and some Gulf-based seiners have a history of fishing in the Bay of Fundy;
2. thus some Gulf-based seiners would qualify for Bay of Fundy boat quotas and their catches would be subject to the levies on catches, as would their catches in the Gulf; and
3. this being the case, the Gulf-based vessels would contribute to the buy-back fund and should benefit from it in proportion to their quotas (which would be very small in any event, given the low seiner allocations in the Gulf).

With regard to the possible employment of some of the purse seine vessels now in the herring fleet fishing for mackerel, the Task Force is of the view that, while the mackerel fishery may provide an attractive alternative for these vessels, such an option must be tested very carefully. We are concerned, in particular, over the effects the purse seine fishery would have on the inshore fishery, as well as whether such a fishery could develop markets in a conventional way rather than selling the catch over-the-side. Hence, we recommend that the feasibility of developing a mackerel fishery be examined through a small-scale experimental fishery, with no long-term commitments being made until the results can be evaluated.

21. Dealing with Differing Views: Consultation and Decision-Making Processes

If ever a time for consultation and co-operation was needed, it is surely 1982. Government must, in co-operation with processors and fishermen, rid itself of this 'wedge' which keeps all the participants at arm's length when discussing fisheries-related issues.

New Brunswick Fish Packers' Association, in a brief to the Task Force.

The Problem

It is difficult to consult adequately and effectively with the myriad interests in the Atlantic fishery. Although a great deal of consultative activity, formal and informal, is an integral part of the Atlantic fisheries scene, there remains widespread criticism that such consultation is not as effective as it should be and that, on some important issues, it does not take place at all. The Department of Fisheries and Oceans is sometimes accused of being secretive and arbitrary and of taking decisions without adequate knowledge or advice from knowledgeable sources (that is, processors and fishermen). Provincial governments complain that they are treated as merely one of many interest groups rather than as another level of government.

The policy issue is whether new consultative and decision-making processes are needed for the Atlantic fisheries.

Recommendations

It is recommended that steps be taken by DFO, in concert with industry organizations, provincial departments of fisheries, and other federal departments as appropriate, to formalize and streamline the processes for consultation and communication on fisheries policy and programs.

The following are our specific recommendations:

- 52. Review membership on management advisory committees and, in the interest of effective communication and the serious pursuit of consensus, reduce numbers to the minimum necessary to ensure that essential interests are represented. Delegate greater responsibility to sub-committees to provide for greater efficiency and more effective representation.**
- 53. Encourage organization of fishermen generally, as well as umbrella groupings that can represent the fisherman's viewpoint on region-wide and Atlantic-wide issues.**
- 54. Make greater use of the Federal/Provincial Atlantic Fisheries Committee to develop policy, to harmonize programs and to resolve conflicts. This will probably require the creation of a network of sub-committees on a continuing or ad hoc basis. An important specific function of the Committee should be a continuing review and assessment of fish processing capacity to curb the tendency toward excess. The Committee should also work to harmonize the various federal and provincial subsidy and loan programs for fishermen.**
- 55. Create an Atlantic Fisheries Consultative Group of knowledgeable and experienced individuals. The maximum size should be 10 to 12, with occasional rotation of members. The Group would operate informally, with a mandate to advise the Minister and senior officials on major strategic issues.**
- 56. Create mechanisms for more effective interpretation of scientific material to the concerned public and greater contact between resource biologists and fishermen's groups.**

- 57. Pursue means to communicate policy, policy changes, and the objectives of Canadian fisheries policy more effectively to the industry and the public at large.**

Comment

There is no doubt that the existing consultative process needs streamlining. The size of some groups would indicate that various interests believed that sheer numbers rather than well-reasoned argument would carry the day. The process is extremely demanding of the time and energies of senior DFO officers and is expensive, as DFO pays for meeting rooms, translation, and often for the attendance of fishermen.

The consultative process more often involves arbitration of competing interests than searches for better ways to manage the fishery. It is thus fractious by nature, and results are bound to be uneven. Unfortunately there appear to be too many mechanisms of this sort as opposed to genuine policy review mechanisms, although DFO is to be commended on its policy seminars as a means of placing issues in longer-term perspective and forcing rational discussion. There is, however, a need for an ongoing mechanism to identify and develop strategic issues. This is the rationale for the proposed Atlantic Fisheries Consultative Group.

The delegation of federal management responsibility to provincial governments and the idea of provincial allocations were dealt with extensively by both levels of government in the constitutional discussions that took place during the summer of 1980. The Task Force did not devote much time to re-examining these ideas, but notes that they are almost universally rejected within the fishing industry, as they were by the federal government in 1980. If the Atlantic fishery is difficult to manage now, it would be almost impossible if it were broken down into five separate sub-regions on the basis of political geography.

We were unable to generate any enthusiasm for a consultative and decision-making model based on the U.S. Regional Council system. It is apparently a system that is appropriate, if not inevitable, in the U.S. jurisdictional context, where states exercise fisheries management authority within three miles. It is of dubious relevance to the Canadian scene, where it would make the decision-making process more complicated than it is now, without contributing anything more to the substance of the issues or any better means for special interests to be heard.

The idea of 'co-management' has not been developed in detail by those who advocate it and appears for the moment to be more of a catch-phrase than a well thought out proposal of substance. The idea is nevertheless intriguing if it means that fishermen's organizations might take more responsibility for the development of and follow-through on policies in the harvesting sector.

V The Future and Getting There

22. Implementation and Cost of the Recommendations

Nothing is administratively impossible.

C.D. Howe

Nobody ever accomplished anything by pussy-footing.

Donald Gordon

Introduction

With the delivery of its Report, the Task Force has discharged its mandate to recommend to the government a set of policies to achieve and maintain a viable Atlantic fishing industry. We are fully aware that many of the actions recommended will still require extensive consultation and study prior to, and in the course of, implementation.

We are also aware of the risk that once the Report has been received, and the initial glare of publicity has faded, the commitment to implementation may fade as well. Indeed, we are reminded of the statement by the 1928 Royal Commission on the fishery quoted at the beginning of Chapter 1 that the complete and final removal of the disabilities afflicting the fishery “will require from the department patient and perhaps prolonged endeavour”. Many of the recommendations in that report addressed issues that plague the fishery to this day, issues that have not been resolved in over half a century. Clearly, a more steadfast commitment to change is needed this time.

Responsibility for implementing the recommendations in this Report rests primarily with the Government of Canada and, within the government, mainly with the Department of Fisheries and Oceans. The willingness to accept change and to shape it creatively must nevertheless come from the individual fishermen, plant workers and owners who, collectively, *are* the fishing industry and whose co-operation is a prerequisite for the successful implementation of the program the Task Force has proposed.

We recognize that the interests of different groups in the fishery will inevitably lead them to oppose some of our recommendations and, therefore, that no set of recommendations that deals fully and realistically with the problems of the industry could attract full and unequivocal support. We believe, nevertheless, that the recommendations constitute a balanced package, the elements of which are mutually reinforcing. The package is also balanced in the sense that it apportions fairly the burden of adjustment to change. It is therefore of utmost importance that this balance be preserved in implementation. If this does not happen, the internal coherence of the recommendations will be lost, and an opportunity to foster greater unity of purpose in the industry will have been squandered.

The Task Force has made 57 recommendations. Some of them endorse and urge priority for activities already underway; for example, many of the recommendations on quality enhancement are already at some stage of implementation in the Department of Fisheries and Oceans.

Other recommendations propose further consultation and study of an issue but stop short of suggesting what the outcome should be. The recommendations on port market institutions, the freezing of inshore northern cod for later processing, and the potential of a large seiner fishery for mackerel are three examples in this category.

A third group of recommendations sets a clear new direction but acknowledges that there must be consultation regarding the timing and specific methods of implementation. Among examples are the recommendations on quota licences, delivery of fish to resource-short plants, and a gross revenue stabilization scheme.

Finally, there are a number of recommendations that in the view of the Task Force can and should be implemented quickly, without extensive additional consultations. Examples include several recommendations to improve fish plant profitability, some immediate reforms to fishermen's unemployment insurance, and the earmarking of funds for fish export market development under the government's Program for Export Market Development.

A number of recommendations will require new legislation. Legislative drafting must begin well before an anticipated implementation date, given the length of the federal legislative agenda. Legislation would be required to amend the Saltfish Act to broaden the mandate of the Canadian Saltfish Corporation to permit it to deal in species and products in addition to saltfish north of 50° in Newfoundland and Labrador and the Québec north shore (recommendation 15). Amendments to the Fisheries Act would be needed to establish the proposed Atlantic Fisheries Licensing Review Board (recommendation 8). New legislation may also be necessary to establish the proposed Atlantic Fisheries Marketing Commission and its related powers, including authority to establish the levies needed to fund the industry share of the cost of generic promotion (recommendations 34-37). Legislation will be needed to impose the levy on herring landings required to fund the proposed buy-back (recommendation 49). Amendments to the Fish Inspection Act may also be necessary to provide for the licensing of exporters (recommendation 32).

Timetable for Implementation

The following comments convey the view of the Task Force on the broad issues of implementation and its timeframe. Although they follow the order of Chapters 9 through 21, not every recommendation is mentioned.

The Task Force would expect the spirit of recommendations 1 and 2 dealing with foreign allocations to be reflected at once in government policy. The issues were explored fully at an industry-government seminar held in September 1982 at Oak Island, Nova Scotia.

The Task Force attaches urgency to determining the criteria for judging the acceptability of joint ventures with foreign interests (recommendation 4). The immediate need for new equity investment in the fishery has been clearly identified, and the guidelines for foreign participation must be plainly spelled out.

It is also urgent that criteria be developed in consultation with fishermen and processors regarding the circumstances in which over-the-side and over-the-wharf sales could be permitted (recommendation 5). These criteria should govern policy for the 1983 fishing season.

With regard to the key recommendation on licensing principles (recommendation 7), the Task Force would expect that enterprise allocations for the trawler fleet (vessels over 100 feet) would be continued in 1983 with a view to their permanent incorporation within a year or two. We believe that the quota licence concept should be extended in 1984, on a pilot basis at least, to the middle distance groundfish fleet of vessels 65 to 100 feet.

The application to vessels under 65 feet of quota licences or a system based on a measure of fishing capacity must first be discussed extensively with fishermen to identify more clearly the benefits and risks and the practical limits of implementation. New options may emerge. To afford adequate time for a complete airing of this very significant concept, the Task Force would not foresee trial implementation on a wide scale in the inshore fishery before 1985. There might nevertheless be specific fisheries in which fishermen themselves may wish to have an earlier trial.

The legislation necessary to establish the Atlantic Fisheries Licence Review Board (recommendation 8) should be given priority. The Board will be needed to deal with, among other things, the enterprise allocations regime for trawlers, which even in 1983 should be well advanced.

Immediate discussions with the province of Québec are necessary to determine the detailed steps that will be required by the federal government to consolidate its management responsibilities for the marine fisheries in that province.

Recommendations 10 and 11 on a resource-short plant policy should be implemented at once. An allocation of 10,000 t of northern cod has been earmarked for the program in 1983. Therefore, criteria for the eligibility of plants must be decided quickly in consultation with the industry and the provinces. The development of Canadian harvesting capability to take over the delivery program entirely, not later than 1987, requires that early attention be given to a fishing plan to occupy the vessels profitably between May and October when they would not normally be able to fish northern cod.

The Department should develop a long-term allocation plan for northern cod, beginning with the 1983 fishing season, that will dovetail with the approximate 1987 allocation targets in recommendation 12. This will require a timetable for the increase of allocations to resource-short plants and for the introduction of Scandinavian-type longliners.

Evaluation of the large longliner technology should be given high priority. Even if the vessels appear promising, it would take several years to build the fleet to the roughly 40,000 t capacity suggested in recommendation 12. Private sector initiatives to test the longliner concept should be supported.

The Task Force recommendation to improve development of the fisheries economy in the area north of 50° latitude (recommendation 15) requires that legislative priority be given to amending the Saltfish Act to permit the Canadian Saltfish Corporation to buy, process and sell other than salt groundfish north of 50°. Meanwhile, extensive consultation will be required with the governments of Québec and Newfoundland and with fishermen and processors in the area to determine the most effective way for the new activities of the Corporation to foster fisheries-based development.

The Task Force attaches great importance and urgency to its recommendations on quality. The departmental timetable for implementation of its Quality Improvement Program has been discussed extensively with the industry and if possible should be accelerated. This would include a timetable for dockside and final product grading.

The Department should immediately re-initiate discussions with the provincial governments regarding simultaneous implementation of mandatory gutting, bleeding, washing and icing of groundfish at sea. Consultations should be held at the same time with fishermen to identify any exceptions that may be warranted. Mandatory gutting, bleeding, washing and icing should be in place not later than the 1984 season.

The collection and analysis of financial information on the processing sector, begun by the Task Force, should become a routine matter of co-operation between the Fisheries Council of Canada and the Department. Provincial governments should also be invited to take part. The development of standard formats and systems for financial and cost accounting data in the industry (recommendation 30) should begin in 1983 in co-operation and consultation with processors' organizations.

The Task Force believes that its recommendations concerning an Atlantic Fisheries Marketing Commission (AFMC) and associated Product Marketing Councils require

immediate attention from the Department and the industry. Several other recommendations in the Report require the advice of the AFMC — for example, those involving final product grade standards, exporter licences, over-the-side and over-the-wharf sales, and generic promotion. A number of these issues are proceeding on their own tight timetables, so it is essential that the Commission be in place as soon as possible to exercise its intended influence.

The amendments to fishermen's unemployment insurance (recommendation 42) should be capable of rapid implementation, because only a change of regulation is required. For example, the proposal to include in the program fishermen whose normal season is in winter should be in place for the 1983 winter fishery.

Recommendations 40 and 41 concerning a production bonus and an income stabilization plan will require a great deal of research and data collection and extensive consultation with fishermen. Processors would also be directly affected. Progress with these two ideas will be a prerequisite to recommendation 43 which suggests that they might replace the fishermen's UI program in 1988.

The course recommended by the Task Force to deal with severe excess capacity in the herring seine fleet breaks a great deal of new ground. It calls for immediate assignment of transferable boat quotas and a novel licence buy-back program funded by a levy on both domestic landings and over-the-side sales. Because of the extraordinarily perplexing nature of the seiner problem, the Task Force urges that its recommendations be discussed urgently, but thoroughly, with all those affected before a policy is implemented. It is important that the issue be resolved and a clear direction set, preferably before the start of the 1983 Bay of Fundy fishery.

Cost Implications

The Task Force has considered carefully the issue of implementation, mindful that the failure to give it adequate attention has been the undoing of many previous studies.

We have estimated the additional financial resources that would be required from the federal government to implement our recommendations over the years 1983 to 1987. The cost estimates are of two types — those associated with annual operating costs to government such as salaries and regular program payments, and those for capital spending, grants and contributions.

The additional annual recurring cost to the federal government of the recommended activities would be roughly \$25 million. Approximately 190 new positions in the public service would be created, most associated with the assumption of fisheries management in Québec and with the dockside and final product grading program.

A proposed schedule for capital expenditures and grants is shown in Table 22.1. The five year total expenditure would be about \$78 million (including an inflationary allowance). About 80 per cent of expenditures made under PEMD are potentially recoverable, so the net expenditure could be less than indicated. The expenditure forecast in Table 22.1 does not include any funds that might be required from government to assist the restructuring of certain processing companies. As explained in Chapter 8, the restructuring issue is being dealt with as a one-time only expenditure and was still under active negotiation at the time the Report was finalized.

Table 22.1
Approximate Requirements for Capital and Grants
(thousands of budget-year dollars)

Rec. No.	Item	1983-84	1984-85	1985-86	1986-87	1987-88	Total
9.	Fisheries management in Québec	\$ 1,000	—	—	—	—	\$ 1,000
15.	Canadian Saltfish Corporation financing	15,000	—	—	—	—	15,000
16.	Dockside and product grading	300	—	—	—	—	300
18.	Ice-making facilities	3,000	3,200	2,300	1,260	1,360	11,120
20.	Education for quality awareness	100	105	110	116	122	553
24.	Port market shared cost studies	250	250	—	—	—	500
30.	Accounting standards	300	150	50	—	—	500
31.	Financial data collection, etc.	75	60	65	70	76	346
38.	Generic Promotion	5,000	8,600	7,000	5,000	2,700	28,300
39.	Program for Export Market Development	1,000	3,150	4,400	5,800	6,100	20,450
Annual Total		\$26,025	\$15,515	\$13,925	\$12,246	\$10,358	\$78,069

23. The Future Shape of the Atlantic Fishery

The Task Force is to report . . . on how to achieve and maintain a viable Atlantic fishing industry, with due consideration for the overall economic and social development of the Atlantic provinces.

*Terms of Reference,
Task Force on Atlantic Fisheries,
January 8, 1982.*

Recommendations and Objectives

In Chapters 9 through 21 we presented recommendations for dealing with the major problems facing primarily the Atlantic groundfish and herring industries. In this chapter, we indicate how these recommendations will help to achieve the three objectives set out in Chapter 7. We go on to discuss the importance of fairness, both real and perceived, in the content and application of fisheries policies. We also comment on the changes in attitude that will be required of everyone involved in the fishery if the policy changes we recommend are to be implemented successfully.

Economic viability

As stated in Chapter 7, the first objective of fisheries policy should be to ensure the economic viability of the industry. The Task Force recommendations make progress toward this objective in a variety of ways.

The marketing recommendations (Chapter 17), which call for the creation of an Atlantic Fisheries Marketing Commission, would help to expand the market for Atlantic groundfish through increased promotion designed to broaden Canada's market base and increase per capita consumption of fish products in Canada and elsewhere. The market would also be enlarged by a significantly expanded Program for Export Market Development and, most important, through better planning and co-ordination of the marketing efforts of Canadian processing companies selling abroad.

The quality improvement recommendations on dockside and final product grading (Chapter 14) and the system to license exporters, which will help to enforce product quality standards, are designed to strengthen prices for Canadian fish products in the marketplace. These, combined with the marketing recommendations, should help to ensure that the products produced by Canadian processors can be sold at adequately profitable prices.

But these improvements alone will not ensure the economic viability of the industry. In addition to expanding markets and getting the best possible prices in the marketplace, processing companies must achieve significant operating efficiencies. The cost reductions outlined in Chapter 16 will be further enhanced by the savings that will result from implementing recommendations in other chapters of the Report. For example, plants will get better fillet yields as the quality of fish arriving at the plant improves. More efficient utilization of plants and improved productivity of plant workers will result when seasonality is reduced by spreading production over a longer period. This, for example, is the intent of the proposed program for resource-short plants.

Better professional management of processing firms and better training of fishermen, plant workers and mid-level management should improve the efficiency with which companies, and individual plants, operate. Reducing excess capital in plants and vessels by restructuring the industry and making enterprise allocations a permanent feature of the offshore fleet will also reduce firms' costs.

Maximum employment

Finally, the economic viability of the processing sector will be strengthened by allowing foreign equity investment if no other source of new equity can be found. As we make clear at several places in the Report, new equity investment is essential to the future of the offshore industry. But this investment can only be attracted and retained if adequate profits are earned.

The second objective of fisheries policy is to maximize employment, subject to the constraint that those employed receive a reasonable income from their work in the fishery. Total employment in the fishery, in both the harvesting and processing sectors, is already as large as one can expect in the foreseeable future; but many of the present participants in the fishery can expect to work longer and earn more as they catch and process increased quantities of fish.

The fact that the number of people employed in the fishery should decline slowly over time was recognized both implicitly and explicitly in many of the briefs to the Task Force, as well in a number of other recent studies of the Atlantic fishery.

For example, the 1978 Government of Newfoundland publication, *Setting a Course*, stated that:

[By 1985] the manpower required by the inshore sector will be considerably lower than at present. This projection is based on the assumption that near-shore fishermen should earn an average of \$7500 per annum in constant 1977 dollars if they are to receive a reasonable level of income for their investment and effort. It follows that if more effort is involved, average earnings would be less and the viability of this sector reduced.

The challenge is to devise policies that will not cause the present number employed in the fishery to drop rapidly, but allow it to decline slowly over time, thus helping to ensure reasonable incomes for those who remain and giving adequate time for other employment opportunities to be found for those who choose to leave. Some decline in the number of plant workers will occur, as some plants will inevitably have to be closed as part of the restructuring of the offshore processing companies, while the institution of a system of quota licences would result, over time, in some reduction in the number of fishermen.

However, in both cases, the incomes of those remaining in the fishery will rise. Lengthening the time during which seasonal processing plants operate — a result of the Task Force recommendations regarding the supply of fish to resource-short plants — would be of significant benefit to plant workers' incomes. More generally, the forecast 50 per cent increase in total groundfish landings by 1987 implies a substantial increase in the total hours worked in plants as a whole. We expect this to result in an increase in the average yearly hours worked per employee and hence in an increase in average annual income for plant workers.

The proposed changes to fishermen's unemployment insurance and the implementation of a production bonus scheme would significantly increase the incomes of full-time fishermen by changing the incentives so that fishermen are rewarded for fishing longer seasons and delivering better quality fish.

In addition, the quota licence system would enable fishermen to obtain more economically efficient vessels, while simultaneously freeing them from a great deal of the regulatory burden to which they are now subjected. This would allow more technological innovation and hence a reduction in harvesting costs. These proposals were designed to offer incentives to fishermen to increase their incomes by trading up or down to more productive and cost-efficient vessels. As with plant workers, fishermen too will benefit from the continued growth in catches, provided their numbers do not increase to swallow up the potential benefits of greater average landings per

fisherman. Our recommendations on quota licences should ensure that the number of fishermen eventually is better matched to the size of the resource.

The proposals directly affecting fishermen are designed to increase the value of catches and reduce costs, thus increasing net incomes. However, there will be those who argue that our recommendations do not go nearly far enough toward solving the current net income problems of fishermen, particularly those who now earn the lowest incomes.

These people will criticize our failure to recommend the implementation of a port market institution (such as that proposed by the Newfoundland Fishermen, Food and Allied Workers Union), whereby fish prices paid to fishermen would be subsidized whenever market-determined prices were low relative to fishermen's harvesting costs, in much the same way that prices farmers receive for certain of their products are subsidized. They would argue that because we have not done so, once again an inquiry into the fishery has been concerned only with the financial problems of processors and has ignored the financial problems of fishermen.

We cannot accept this criticism. To have followed this approach would have been to neglect the fundamental position of the Task Force — that an economically viable industry, one that does not have to depend on ongoing government subsidies, should be the primary objective of fisheries policy. We reject it also because there already exists a mechanism, the Fisheries Prices Support Board, that can be used to subsidize prices paid to fishermen whenever this is absolutely necessary. A new mechanism is thus unnecessary, as well as unwise.

In addition, it must be emphasized that the Task Force believes that the best solution to the fishermen's income problem is through a two-pronged approach: a gross income stabilization plan to smooth out highs and lows in a fisherman's gross revenue over a rolling five-year period; and a production bonus system, which would enable a fisherman to supplement his income if he improves the quality of his catch (by using more appropriate gear and properly handling fish at sea) and catches fish in the off-peak season. As these programs come into effect, they will have a significant effect on the incomes of all fishermen. Moreover, they will be more difficult to implement if a price subsidy program is put in place first.

There will also be criticism of the fact that the proposals for restructuring the off-shore processing sector, which we hope can be announced at the same time the Report is made public, would result in much greater financial assistance going to processors than to fishermen (some will say "bail-out", despite that fact that some of the present shareholders may not be involved in the restructured industry). This *we-versus-they* view is typical of the attitudes that prevade the fishery, but it is irrelevant. Saving the offshore industry, and the jobs of plant workers, trawler crews and fishermen that go with it, is obviously of fundamental importance given our first two objectives. Moreover, inshore fishermen, as well as those directly employed by the processing sector, clearly benefit from a strengthened processing sector, a fact all too often ignored by some spokesmen for fishermen's organizations.

The Task Force believes that the best ultimate guarantee of better incomes for fishermen and plant workers is a more economically viable industry in which all participants have adequate and balanced bargaining power. Virtually all the recommendations in the Report are directed at improving the economic health of the industry as a whole, thereby improving the returns to fishermen, plant workers and investors.

*Maximum
Canadian
participation*

The extent to which our third objective — Canadianization of the Atlantic fishery — is achieved will depend on the success the industry has in attracting new Canadian equity investment, from either private or government sources, and on the willingness

of government to resist the temptation to trade allocations within the Canadian 200-mile limit for access to foreign markets.

The allocation of northern cod reserved for delivery to resource-short plants offers a major opportunity for further Canadian development of a freezer trawler fleet that would then be available to exploit under-utilized species such as squid. Canadianization will also depend on creating practical alternatives to the use of foreign vessels as markets for over-the-side and over-the-wharf sales. It also requires that higher foreign price offers not be used as the sole justification for permitting over-the-side sales.

In summary, the shape of the industry resulting from implementation of our recommendations would be as follows:

- The offshore industry would have fewer processing plants.
- The inshore processing sector would continue to have a large number of individual (usually owner-operated) enterprises, although over time, there would probably be fewer than at present. The marketing activities of this sector would be better coordinated, although this would be achieved by voluntary rather than compulsory action. Several of the larger, resource-short seasonal plants would operate nearly year-round, as they would have access to landings of offshore fish in the winter.
- The harvesting sector would have a new market-like licensing mechanism as a result of introducing a quota licence scheme that would offer incentives to fishermen to harvest their catch in the most economically efficient way. Fishermen's incomes would rise as a result of the proposed changes to the unemployment insurance program, the introduction of a production bonus scheme and gross income stabilization plan, and increased groundfish landings.
- The industry as a whole would be less seasonal, better managed than it is now, less regulated, particularly with regard to technology, and hence more profitable.
- The quality of fish would be improved by better handling from the time it is caught until it is sold in processed form. This, along with marketing initiatives, would result in higher prices, expanded markets, and lower plant processing costs.
- The role of government in the processing sector would be increased selectively through the expanded role of the Canadian Saltfish Corporation and, if necessary, through equity participation in the offshore processing sector.

The Objective of Fairness

It should not be necessary to state that one objective of public policy must be that it is fair, and is seen to be fair, by those to whom it is applied. But the fact is that the degree of mistrust, indeed animosity, that exists among the participants in this industry — fishermen, processors, provincial governments and the federal government alike — is such that it is almost impossible to persuade participants that *any* government decision is fair. In such a climate, the degree of co-operation among *all* participants in the fishery required to implement our recommendations will be almost impossible to achieve.

Before discussing how to change this climate, we must make clear that the charges of unfairness are made not only against the federal government. In fact, the fishery seems to abound with individuals and organizations who spend most of their time putting the blame for the industry's problems on everyone else while accepting none of it themselves.

For example, in presentations to the Task Force, processors' organizations repeatedly emphasized the need for improved quality but they were generally opposed to licens-

ing of exporters and strongly opposed to final product labelling. Those who argued this way are saying, in effect, that the quality problem lies with fishermen, not with the processing companies. They take this position despite the fact that Task Force data show that 40 per cent of the cod blocks that were rejected by a large U.S. buyer were rejected because they had bones in them — hardly the fisherman's fault.

To cite another instance, federal government spokesmen put much of the blame for excess capacity in the processing sector on provincial government licensing policies and cheap loans, "greedy" processors and irresponsible lending by banks — a position that, while true in part, neglects the role played by the federal government itself in financing many of those plants.

The federal government also appears to mistrust completely the processing sector, particularly the owners of the large offshore companies, and seems to believe that they are largely responsible for their current financial problems. The view of processors is exactly the opposite: they mistrust the federal government and blame it for many of their current problems.

Provincial governments say that the excess capacity in the processing sector is the result of federal harvesting policies, particularly regarding allocation of the TAC. They also take the view that now that the plants have been built, it is up to the federal government to make certain they have enough fish to be economically viable. When this does not happen, the provinces argue that they should have jurisdiction over harvesting, as if in some magic way this would create enough fish to supply all the plants they have licensed.

Many fishermen, meanwhile, believe that governments, both federal and provincial, neither grasp nor adequately respond to their views. Governments are perceived as remote and not truly understanding of a fisherman's very difficult life at sea. Company lobbyists, comfortable with the language and style of bureaucrats, are thought by fishermen to have undue influence on policy and regulation-making. The fishermen feel that they always get the worst part of any new policy, even those that have been designed specifically to help them.

In this acrimonious climate, the Task Force believed that if its three policy objectives were to be achieved, then our recommendations would have to accomplish two additional goals: first, the recommendations would have to place the onus for change as equally as possible on all participants in the fishery; and second, the recommendations would have to propose decision-making systems that would be seen to be fair by everyone involved in the fishery.

It was with the first of these goals in mind that the Task Force recommended, for example, both dockside grading, which mainly affects fishermen, and final product grading, which affects processors. We also recommended that severe restrictions be placed on both over-the-side and over-the-wharf sales — again, a balanced package.

It was to meet the second goal that we recommended the creation of a quasi-judicial body to oversee the licence transfer process, to issue licences and to issue increased allocations when the managers of the resource, the Department of Fisheries and Oceans, decide such an increase is biologically and economically warranted. This should help greatly to de-politicize the allocations process.

The proposed marketing organization should also help to reduce the degree of mistrust among fishermen, governments and processors with respect to marketing. With common information about the market widely available, much of the misinformation and mistrust associated with marketing activities should be eliminated. People will, we hope, be more realistic in their comments on the marketing problem if they have adequate information about it.

Several other proposals would also improve the perceived fairness of government decisions by reducing the degree of regulation in the fishery and hence the apparent arbitrariness of the rules under which fishermen operate. For example, the quota licence system would reduce the need for much of the technology regulation that now exists. The recommended change with regard to establishing enterprise allocations for a prolonged period is also designed to ensure fairness in government decisions by removing some of the apparent ad hocery in the current allocations system.

Making fisheries policy less subject to ad hoc decision making than it now appears to be is of vital importance. Stability in policy is needed to provide an adequate planning environment for fishermen and processors alike. Without greater certainty with regard to what fisheries policies are or will be, the new investment the fishery needs will almost certainly not materialize.

Of equal, if not greater importance is the fact that sudden changes in fisheries policy and ad hoc government decisions create the appearance, if not the reality, of unfairness. There is no doubt that this has been a major contributing factor in the development of the climate that now pervades the industry.

This problem can be ameliorated in large part by providing those who will be affected by a policy decision with the rationale for it — why the policy will solve the problem and, if possible, how the policy change will safeguard their interests — and by improving the consultative activities of the Department of Fisheries and Oceans. The only truly effective means of making a policy acceptable to those affected by it is to present reasonable arguments to persuade them of the need for it and to involve them in its formulation.

All the steps just described will help to reduce mistrust among participants in the industry. But no matter how hard the government tries to be balanced and fair in its approach, it will not succeed if fishermen and processors are determined to continue accusing the government of bias or if they continue to put the onus on government for solving problems, such as quality, that they should be solving on their own.

Improving the climate of co-operation and confidence in the industry will require strong leadership from processors' and fishermen's organizations, as well as changes in attitude among all participants in the fishery, including government. This recommendation will probably be the one that is most difficult to implement successfully.

Conclusion

As explained throughout the Report, the longstanding problems of the Atlantic fishery stem from a wide variety of sources, the most notable of which are the common property nature and seasonality of the fishery, the fact that product quality has sometimes been unsatisfactory and that marketing has been inadequate, and the fact that plant and company management needs to be improved. But in addition to these problems, the 1982 crisis in the Atlantic fishery has three specific roots. In order of importance, they are:

1. the optimism following the extension of fisheries jurisdiction in 1977, which led to financial over-extension, chiefly over-capitalization, by fishermen and processors, aided and abetted by both levels of government, and whose effects were made much worse by general economic reverses;
2. resistance to change and adjustment, following the establishment of the 200-mile zone, in a tradition-bound industry that has been at least as much part of the culture of the Atlantic region as it has been a business; and
3. the current politics of the fishery — federal, provincial and internal to the industry itself — which inhibits change, shelters the less efficient, and leads participants to pick sides and fight for turf.

The recommendations in this Report have been aimed primarily at the first and, to a much lesser extent, the third of these problems. The second problem is not one that can be solved by changes in public policy. Yet it is perhaps the most crucial obstacle to be overcome if our recommendations are to be implemented successfully.

This obstacle will be overcome only if the leaders of both fishermen's and processors' organizations are willing to make a genuine contribution to this effort. If they are not, in a few years' time another financial crisis will hit the industry, another task force or royal commission will be set up to find a long-term solution to the problem, and the cycle of the last 100 years will start all over again.

However, if the leaders of fishermen's and processors' organizations are willing to make the effort to help implement new policies — in short, to make change possible — then the Task Force believes that this Report provides an effective chart for navigating the troubled waters of the Atlantic fishery.

Appendices

Appendix 1 Terms of Reference

1. The Task Force will proceed on an urgent basis, and shall periodically report to the ad hoc Committee of Ministers on the Atlantic Fisheries.
2. The Task Force will inquire into and report upon the current conditions and future direction of the Atlantic Coast fisheries, and, without limiting the generality of the foregoing, inquire into and report upon:
 - (a) industry and corporate structure, with particular attention to questions of:
 - fleet and plant processing capacity
 - marketing
 - management
 - harvesting
 - product quality and inventory
 - financial arrangements
 - seasonality
 - industry and corporate returns and their distribution
 - (b) government policy and regulation, particularly with respect to the following:
 - federal policies and regulations, particularly as they relate to quotas
 - federal-provincial interaction/overlap
 - (c) social context of the Atlantic fisheries, with particular attention to:
 - employment effects, both direct and indirect
 - income level protection and stabilization for inshore and offshore fishermen
 - community maintenance
3. The Task Force is to report to the ad hoc Committee of Ministers on how to achieve and maintain a viable Atlantic fishing industry, with due consideration for the overall economic and social development of the Atlantic provinces.

To this effect the Task Force shall present options with corresponding organizational and financial implications, and in particular with respect to the following:

- (a) alternative models for the structure of the fishing industry, including harvesting, processing and marketing;
- (b) degrees of private sector involvement versus public sector involvement by the federal or provincial governments;
- (c) federal policies, regulations, and program activities;
- (d) federal-provincial relations and external relations; and
- (e) alternative sources of employment.

Appendix 2 Glossary of Terms

Bleeding and gutting: One of the sequence of events in the proper on-board handling of groundfish. While the fish is still alive, it should be bled (by cutting its throat) to reduce the chance of blood spots and bruising. Once bled, it should be dressed by slitting its belly and removing the stomach and other organs so as to retard the process of decomposition. The fish should then be washed and put on ice, preferably in boxes.

Block: A 16-pound frozen slab of fish fillets, 2½ inches thick, 10 inches wide and 19 inches long. The fillets are packed into metal containers with these dimensions, placed on the shelves of refrigeration units called plate freezers and frozen. Once frozen into blocks they are removed, boxed, and kept in cold storage for shipping and later use. The blocks are cut by band saws into fish sticks or other shaped portions, which are then often battered, cooked, and refrozen for retail sale.

Boston Blue Sheet: The U.S. government report on fish prices in the Boston market. The data are gathered through a telephone survey, and the report is printed on blue paper.

By-catch: The catch of one species when the target species is another. By-catch regulations are set to limit catches of the non-target species for conservation purposes. For example, on the Scotian Shelf, once the haddock quota is reached, vessels fishing for cod are allowed to have only 10 per cent of their catch on board as haddock.

Enterprise: We use the term 'fishing enterprise' to mean the sum of an individual fisherman's investment in vessels, gear, shore facilities and operating capital.

Factory Trawler: A vessel similar to a freezer trawler, except that the catch is usually processed (e.g., filleted) at sea and frozen in final product form. It is a floating fish plant.

Freezer Trawler: A fishing vessel that can freeze the catch on board. The technology was developed by Europeans to permit fishing in distant waters without the need to salt the catch. The fish are typically headed and gutted and frozen in large blocks, to be thawed and filleted later. There is only one freezer trawler currently engaged in the Canadian east coast groundfish fishery.

Full-time, part-time and bona-fide fishermen: Every person who intends to fish commercially must purchase a personal fishing licence from the Department of Fisheries and Oceans. Full-time licences are issued to those who normally fish all or most of the season available to them in their localities. Those who fish for shorter periods are eligible for part-time licences. Bona-fide fishermen is the term used by the Task Force to denote full-time licensees who actually use their licences in any given year, as well as part-timers who fish at a level similar to full-timers (about 25 per cent of part-timers).

Gillnet: A long rectangular net, usually anchored near the ocean bottom, which catches fish by entanglement or snaring at the gills. If the nets are not tended frequently, fish die in them and quality deteriorates. If the net becomes separated from its surface buoy it can continue to 'fish' indefinitely without being retrieved — this is called 'ghost-fishing'.

Groundfish: The collective term used to describe species that feed near the ocean bottom; the principal species include cod, haddock, redfish, pollock, turbot and a variety of species of flatfish (e.g., flounder, sole).

Highliners: Fishermen who earn top money and who are recognized as the most skillful at their trade. For analytical purposes, the Task Force defined 'highliners' as those in the top 10 per cent of fishing income earners.

Longline: A line of baited hooks, anchored to the ocean bottom and retrieved at intervals by a vessel called a longliner. (In Newfoundland, a longliner is the term usually applied to a vessel under 65 feet that uses gillets. Newfoundlanders refer to the longline method as fishing with 'baited hook'.) Longlining is an energy-efficient catching method that typically yields large fish of high quality, but catch rates may be low.

NAFO Areas: The waters off Canada's east coast were divided by the International Commission on the Northwest Atlantic Fisheries (ICNAF) into a set of zones defined by an alpha-numeric code. For example, the Gulf Coast of Newfoundland borders on Area 4R; eastern Newfoundland and southern Labrador are adjacent to Areas 2J, 3K and 3L. Fish stocks and quotas are defined with reference to these areas. Following the extension of fisheries jurisdiction, ICNAF was replaced by NAFO — the North-west Atlantic Fisheries Organization.

Northern cod: The popular term for the population of cod found from the northern half of the Grand Bank to the Hamilton Inlet Bank off Labrador (NAFO Areas 2J, 3KL). It is by a wide margin the largest fish stock off Canada's east coast and is potentially the largest cod population in the world. The TAC for northern cod in 1982 is 230,000 t, projected to increase to at least 400,000 by 1987. In 1968 the foreign catch from the stock exceeded 800,000 t, an amount significantly above the sustainable harvest.

Offal: Waste material (guts, blood, head, tail, bones, skin) resulting from the dressing and processing of fish. Offal is often reduced, through grinding, oil separation and cooking, into fish meal and oil and sold for agricultural and industrial purposes.

Pelagic Species: Fish that swim near the surface, usually in large schools. Principal species in Canadian waters are herring, mackerel and capelin.

Round Weight: A term used loosely in the industry with reference to the weight of fish as purchased from a vessel. If the species is cod, it will usually be gutted with head on. If it is flounder it may only have its tail cut ('bob-tailing'). If it is redfish, herring or mackerel the round weight is the live, gut-in, weight. Fisheries statistics may also use the term 'round weight'. In this case it always refers to the live weight of the fish and never to its gutted weight. Use of the term 'round weight' is often confusing because it is ambiguous.

Saltfish: Fish cured by use of salt; depending on final moisture content, may be 'wet' or 'dry'.

Seine: A net that is towed in a circle to surround a school of fish. It is used primarily in the herring fishery and also for mackerel and capelin. The vessel is called a seiner.

Stock: Term used to refer to a population of fish of one species that congregates and/or migrates within a given geographical area. Thus, there may be several stocks of fish for each species. The fish in each stock are genetically distinct, despite the fact that they belong to the same species, and thus each stock can be managed independently, because fish from one stock do not mix with those of another.

Stockfish: Fish cured by drying only.

Tonne (metric ton): One thousand kilograms (2,204 lbs). The standard unit of volume in fisheries statistics. It is abbreviated, t.

Total Allowable Catch (TAC): For each distinct stock of fish, an annual determination of a total catch level is made by biologists according to management criteria that seek to ensure the size and stability of the fish population and rapid re-building if the stock has been depressed.

Tragedy of the Commons: Originally, the title of an article by Garret Hardin in a 1968 issue of *Science* magazine. Used here to refer to the fact that because fish are common property, rational or 'normal' behaviour by fishermen — that is, to try to maximize their share of the catch before someone else gets it — leads to adverse consequences for the resource as a whole. See Chapter 10.

Trap: Any of a variety of devices that lead fish into empoundment, after which they can be scooped live with dip nets. The cod trap is the main traditional gear on Newfoundland's east coast. It yields large volumes, but only for a few weeks in mid-summer, when the fish 'strike' inshore in pursuit of capelin for food. Trap fish tend to be small, and the combination of high daily volumes, warm weather and certain physiological characteristics of cod at that time of year often combine to produce significant quality problems.

Wetfish Trawler: An offshore fishing vessel that preserves its catch for up to two weeks by stowage in ice.

Yield: This is usually the ratio of final product weight to round weight as purchased by a plant. For cod fillets cut from a head-on, gutted fish, the yield typically ranges from 33 to 42 per cent. The yield is one of the most critical cost factors in the fish business. For example, if cod is purchased from a fisherman for 26¢ per pound and if the fillet yield is low at 33 per cent, the actual raw material cost of the fillet flesh (disregarding the small residual value of the skeleton and minced flesh) would be 78.8¢ per pound. A high yield (say, 42 per cent) results in a fillet cost of 61.9¢ per pound, a difference of 16.9¢ per pound. High yields result from high quality raw material and from good plant workmanship.

Glossary of Acronyms

CSC	Canadian Saltfish Corporation
DFO	Department of Fisheries and Oceans
DREE	Department of Regional Economic Expansion
FAO	United Nations Food and Agriculture Organization
FIRA	Foreign Investment Review Agency
FPSB	Fisheries Prices Support Board
GATT	General Agreement on Tariffs and Trade
ICNAF	International Commission for the Northwest Atlantic Fisheries
MSY	Maximum Sustainable Yield
NAFO	Northwest Atlantic Fisheries Organization
NFFAWU	Newfoundland Fishermen, Food and Allied Workers Union
PEMD	Program for Export Market Development
RDIA	Regional Development Incentives Act
SGA	Selling, General and Administrative Expenses
TAA	Task Force Analytical Area
TAC	Total Allowable Catch

Canada
